

**PRELIMINARY OFFICIAL STATEMENT**

**Dated: March 9, 2026**

**NEW ISSUE: BOOK-ENTRY-ONLY**

*In the opinion of Tax Counsel (defined herein), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (i) is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein.*

**KEMP INDEPENDENT SCHOOL DISTRICT**

**(A Political Subdivision of the State of Texas located in Henderson and Kaufman Counties)**

**\$65,000,000\***

**Unlimited Tax School Building Bonds, Series 2026**

**Interest Accrual Date: Delivery Date (defined below)**

**Dated Date: March 15, 2026**

**Due: February 15, as shown on the inside cover page**

The Kemp Independent School District (the "District") is issuing its \$65,000,000\* Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 3, 2025 (the "Election"), and the order (the "Order") authorizing the issuance of the Bonds to be adopted by the District's Board of Trustees (the "Board") on March 23, 2026.

The Bonds constitute direct and voted obligations of the District and are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has made application and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be additionally guaranteed by the corpus of the Permanent School Fund of the State of Texas, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds (see "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Delivery Date to the Underwriters (defined below), and will be payable on June 30, 2026, an irregular interest payment date, and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is Regions Bank, Birmingham, Alabama (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. See "BOOK-ENTRY- ONLY SYSTEM."

Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, upgrading, updating, modernizing, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities); and (ii) paying the costs of issuance of the Bonds.

The Bonds maturing on or after February 15, 2037 are subject to redemption at the option of the District in whole or in part on February 15, 2036 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the underwriters for the Bonds, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order, which provisions will be included in the final Official Statement (see "THE BONDS – Mandatory Sinking Fund Redemption").

**MATURITY SCHEDULE**

**(On Inside Cover)**

*The Bonds are offered for delivery when, as and if issued, and received by the underwriters named below (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by FBT Gibbons LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel, and Powell Law Group LLP, Austin, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about April 9, 2026 (the "Delivery Date").*

**SAMCO CAPITAL**

**OPPENHEIMER & CO.**

**THE BAKER GROUP**

*\*Preliminary, subject to change.*

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

**KEMP INDEPENDENT SCHOOL DISTRICT**  
**(A Political Subdivision of the State of Texas located in Henderson and Kaufman Counties)**

**\$65,000,000\***  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026**  
**MATURITY SCHEDULE\***

**CUSIP Prefix: 488386 <sup>(1)</sup>**

<u>Maturity</u> <u>Date (2/15)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate (%)</u>	<u>Initial</u> <u>Yield (%)</u>	<u>CUSIP</u> <u>Suffix <sup>(1)</sup></u>
2027				
2028				
2029				
2030				
2031				
2032				
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2036				
2037				
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2049				
2050				
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2053				
2054				
2055				
2056				

(Interest to accrue from the Delivery Date)

*<sup>(1)</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2026 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Financial Advisor, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.*

*\*Preliminary, subject to change.*

**KEMP INDEPENDENT SCHOOL DISTRICT  
OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Name</u>	<u>Term Expires</u>
Vidal Jones, President, Place 1	May 2026
Matt Gross, Vice President, Place 3	May 2027
Sharron Rankin, Secretary, Place 4	May 2027
Regina Kiser, Member, Place 2	May 2026
Randal Robertson, Member, Place 5	May 2028
Linda Hale, Member, Place 6	May 2028
Rachel Brewington, Member, Place 7	May 2028

**CERTAIN DISTRICT OFFICIALS**

<u>Name</u>	<u>Position</u>
Dr. James Young	Superintendent of Schools
Sherry Crawford	Director of Business

**CONSULTANTS AND ADVISORS**

**Auditors**

Eide Bailly  
Abilene, Texas

**Co-Bond Counsel**

FBT Gibbons LLP  
Houston, Texas

Powell Law Group LLP  
Austin, Texas

**Financial Advisor**

D.A. Davidson & Co.  
Plano, Texas

For additional information regarding the District, please contact:

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Director of Business  
Kemp Independent School District  
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Kemp, Texas 75143  
Phone: (903) 498-1400

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D.A. Davidson & Co.  
5601 Granite Parkway, Suite 560  
Plano, Texas 75024  
Phone: (972) 523-3913

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified so to do or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM- PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency (“TEA”) and the District, respectively, to provide certain information on a continuing basis.

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company, New York, New York (“DTC”), or its Book-Entry-Only System or the affairs of TEA described under “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” as such information has been provided by DTC and the TEA, respectively.

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

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

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

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*The cover page hereof, the section entitled “Selected Data from this Official Statement,” this Table of Contents and Appendices attached hereto are part of this Official Statement.*

## SELECTED DATA FROM THIS OFFICIAL STATEMENT

This selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement (which includes the Appendices attached hereto). No person is authorized to detach this page from this Official Statement or to otherwise use it without this entire Official Statement.

<b>The District</b>	The Kemp Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Henderson and Kaufman Counties, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Policy making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
<b>Authority for the Bonds</b>	The District is issuing its \$65,000,000* Unlimited Tax School Building Bonds, Series 2026 (the “Bonds”) pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 3, 2025 (the “Election”), and an order (the “Order”) authorizing the issuance of the Bonds to be adopted by the Board on March 23, 2026.
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is Regions Bank, Birmingham, Alabama (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York (see “BOOK-ENTRY-ONLY SYSTEM”).
<b>Security</b>	The Bonds constitute direct and voted obligations of the District, payable as to principal and interest from an ad valorem tax levied annually against all taxable property located within the District, without legal limit as to rate or amount. Additionally, the District has applied for and received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “THE BONDS – Security”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.
<b>Redemption Provisions</b>	The Bonds maturing on or after February 15, 2037 are subject to redemption at the option of the District in whole or in part on February 15, 2036 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See “THE BONDS – Optional Redemption”). If two or more serial bonds of consecutive maturities are combined into one or more “Term Bonds” by the Underwriters for the Bonds, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order, which provisions will be included in the final Official Statement (see “THE BONDS – Mandatory Sinking Fund Redemption”).
<b>Rating</b>	<p>The Bonds are rated “Aaa” by Moody’s Investors Service (“Moody’s”) based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency.</p> <p>The District’s underlying, unenhanced rating (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is “Aa3”, as assigned by Moody’s (see “RATING”).</p>
<b>Tax Matters</b>	In the opinion of Tax Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes described under statutes, regulations, published rulings and court decisions on the date hereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on certain corporations. (See “TAX MATTERS” and “APPENDIX C - FORMS OF LEGAL OPINION OF CO-BOND COUNSEL AND TAX COUNSEL.”)

<b>Book-Entry-Only System</b>	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to its Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 of principal amount, or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to the legality by FBT Gibbons LLP, Houston, Texas and Powell Law Group LLP, Austin, Texas, Co-Bond Counsel. See “APPENDIX C – FORMS OF LEGAL OPINION OF CO-BOND COUNSEL AND TAX COUNSEL.”
<b>Delivery Date</b>	When issued, anticipated to occur on or about April 9, 2026.

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**PRELIMINARY OFFICIAL STATEMENT**  
relating to  
**\$65,000,000\***  
**KEMP INDEPENDENT SCHOOL DISTRICT**  
**(A Political Subdivision of the State of Texas located in Henderson and Kaufman Counties, Texas)**  
**Unlimited Tax School Building Bonds, Series 2026**

**INTRODUCTORY STATEMENT**

This Official Statement (the "Official Statement"), which includes the cover page and Appendices attached hereto, has been prepared by the Kemp Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Henderson and Kaufman Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") identified on the inside cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (defined below) anticipated to be adopted by the Board of Trustees of the District (the "Board") on March 23, 2026 authorizing the issuance of the Bonds, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the Kemp Independent School District, 803 S. Main St., Kemp, Texas 75143, and, during the offering period, from the District's Financial Advisor, D.A. Davidson & Co., 5601 Granite Parkway, Suite 560, Plano, Texas 75024, email: sperry@dadco.com.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the Underwriters of the Bonds to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

**THE BONDS**

**Authorization and Purpose**

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 3, 2025 (the "Election"), and an order (the "Order") authorizing the issuance of the Bonds to be adopted by the Board on March 23, 2026.

Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, upgrading, updating, modernizing, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities); and (ii) paying the costs of issuance of the Bonds.

The Bonds constitute the final installment of a total amount of \$65,000,000 authorized at the Election.

**General Description**

The Bonds will be dated March 15, 2026 (the "Dated Date") and interest will accrue from the Delivery Date as defined on the cover hereof. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months and is payable on June 30, 2026, an irregular interest payment date, and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption.

*\*Preliminary, subject to change.*

The Bonds will be issued only as fully registered obligations. The Bonds will be issued in the denominations of \$5,000 of principal or any integral multiple thereof within a maturity.

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, Regions Bank, Birmingham, Alabama, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company, New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

If the date for any payment on the Bonds is a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive resolution to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

### **Optional Redemption**

The Bonds maturing on or after February 15, 2037, are subject to redemption, at the option of the District, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

### **Mandatory Sinking Fund Redemption**

If the Underwriters designate principal amounts of the Bonds to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption as provided in the Order and will be described in the Official Statement.

### **Notice of Redemption and DTC Notices**

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE NOTEHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE, AND ANY PRECONDITIONS STATED IN THE NOTICE OF REDEMPTION HAVING BEEN SATISFIED INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A NOTE HAS NOT BEEN PRESENTED FOR PAYMENT.

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

## **Security**

The Bonds constitute direct and voted obligations of the District payable as to both principal and interest from an ad valorem tax levied annually, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the Order. **Additionally, the District has applied for and received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of Permanent School Fund of Texas, which guarantee will automatically become effective when the Attorney General of the State approves the issuance of the Bonds (see APPENDIX E - "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).**

## **Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education (the "Education Commissioner") for the payment of the Bonds to be guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State in accordance with the terms of the Guarantee Program for School District Bonds. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund. The disclosure regarding the Permanent School Fund Guarantee Program in APPENDIX E is incorporated herein and made a part hereof for all purposes.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund.

## **Legality**

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by FBT Gibbons LLP, Houston, Texas and Powell Law Group LLP, Austin, Texas, Co-Bond Counsel. (See "LEGAL MATTERS" and "APPENDIX C - FORMS OF LEGAL OPINION OF CO-BOND COUNSEL AND TAX COUNSEL.")

## **Payment Record**

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

## **Amendments**

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Co-Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the majority of owners of the Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or interest on outstanding Bonds or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

## **Defeasance**

The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without

reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds are estimated to be applied approximately as follows:

**Sources**

Par Amount of Bonds	\$ -
[Net] Reoffering Premium	-
<b>Total Sources of Funds</b>	<u>-</u>

**Uses**

Deposit to Construction Fund	\$ -
Costs of Issuance	-
Underwriters' Discount	-
Deposit to Interest and Sinking Fund (Includes Capitalized Interest)	-
<b>Total Uses of Funds</b>	<u>\$ -</u>

**REGISTERED OWNERS' REMEDIES**

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given to the District by any registered owners, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the

remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the State legislature has effectively waived the District’s sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order for the Bonds covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Co-Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors by general principles of equity which permit the exercise of judicial discretion.

### **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

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

## REGISTRATION, TRANSFER AND EXCHANGE

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is Regions Bank, Birmingham, Alabama. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

### **Successor Paying Agent/Registrar**

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **Initial Registration**

Definitive Bonds will be initially registered and delivered only to CEDE & CO., the nominee of DTC pursuant to the Book-Entry-Only System described herein.

### **Future Registration**

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

### **Record Date For Interest Payment**

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the preceding month. The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the preceding month; provide however, the Record Date for the June 30, 2026, irregular interest payment date shall be the close of business on the preceding business day. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Limitation on Transfer of Bonds**

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

## **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **AD VALOREM TAX PROCEDURES**

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

### **Valuation of Taxable Property**

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

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

Unless extended by the State Legislature, through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.16 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. For the 2025 tax year, the maximum property value was increased to \$5,160,000.

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

The appraisal values set by the Appraisal Districts are subject to review and change by the respective Appraisal Review Boards. The appraisal rolls, as approved by the Appraisal Review Boards, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (See "AD VALOREM TAX PROCEDURES - District and Taxpayer Remedies").

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

As referenced above, the following increases, (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, were pursuant to legislation passed by both houses of the Legislature during the 89th Regular Session and voter approval at a Statewide election held on November 4, 2025.

### **Local Option Homestead Exemptions**

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2) above may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. Cities, counties, and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

### **State Mandated Freeze on School District Taxes**

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

The total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is 65 years of age or older or disabled may be adjusted to reflect any statutory reduction from the preceding tax year in the maximum compressed rate of the maintenance and operations taxes imposed for those purposes on the homestead.

### **Personal Property**

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session will provide a person with an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

### **Freeport and Goods-In-Transit Exemptions**

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

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

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

### **Other Exempt Property**

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

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. The governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. Under Section 11.35, Texas Tax Code, property is only “damaged” if it has sustained physical damage. For more information on the exemption, reference is made to Section 11.35, Texas Tax Code, as amended.

### **Tax Increment Reinvestment Zones**

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

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

### **Tax Abatement Agreements**

The Texas Economic Development Act (former Chapter 313, Texas Tax Code, as amended (“Chapter 313”)), previously allowed school districts to grant limitations on appraised property values to certain entities to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that was not fully taxable was excluded from the school district’s taxable property values. Therefore, a school district was not subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts.”

### **Tax Limitation Agreements**

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

In the 88th Texas Legislative Session, House Bill 5 (“HB 5”) was adopted to create an economic development program, subject to state oversight, that would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. HB 5 was codified as Chapter 403, Subchapter T, Texas Government Code, as amended (“Chapter 403T”) and had an effective date of January 1, 2024. Under Chapter 403T, a school district may offer a 50% abatement on taxable value for maintenance and operations ad valorem taxes for certain eligible projects, except that projects in a federally designated economic

opportunity zone receive a 75% abatement. Chapter 403T also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing bonds cannot be abated under Chapter 403T. Eligible projects must involve manufacturing, provision of utility services, including dispatchable electric generation facilities, facilities related to the development of natural resources, facilities engaged in the research, development or manufacture of high-tech equipment or technology, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements.

### **District and Taxpayer Remedies**

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$62,883,169 for the 2026 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

### **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

### **District's Rights in the Event of Tax Delinquencies**

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

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

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

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

### **District Application of Tax Code**

The Appraisal Districts have the responsibility for appraising property in the District as well as other taxing units in Henderson and Kaufman Counties.

The Appraisal Districts are governed by boards of directors, members of which are both appointed by the governing bodies of various political subdivisions that participate in each respective Appraisal District and elected by voters within each County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 15 of the following year.

The District grants a State mandated \$140,000 general residence homestead exemption.

The District grants a State mandated \$60,000 residence homestead exemption for persons 65 years of age or older or disabled persons.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District has not granted a local option, additional exemption to disabled veterans above the amount of the State-mandated exemption.

The District has not granted a local option, additional exemption of 20% of the market value of residence homesteads.

The District does not tax non-business personal property.

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

The District does not exempt "freeport property" from taxation.

The District does not exempt "goods in transit" from taxation.

The District is not currently a participant in any Tax Increment Reinvestment Zone.

### **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in APPENDIX E is incorporated herein and made a part hereof for all purposes.

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

### Litigation Relating to the Texas Public School Finance System

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

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

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

### Possible Effects of Changes in Law on District Bonds

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

### Overview

The following language constitutes only a summary of the Finance System as it is currently structured. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax

Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

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

## **2025 Legislative Sessions**

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

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Pursuant to voter approval at a Statewide election held on November 4, 2025 and legislation passed by both houses of the Legislature, the following will increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Additionally, the Legislature passed legislation that authorizes roughly \$8.5 billion in funding for public schools and provides districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as providing districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature and signed into law by the Governor will create an education savings account program (commonly referred to as vouchers) for students that attend private schools or home school. The legislation becomes effective September 1, 2025, when the state fiscal biennium begins, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2025-2027 biennium may not exceed \$1 billion. Beginning on September 1, 2027, the legislation requires the Legislature to re-appropriate funds for the program for each subsequent State fiscal biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

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

## **Local Funding for School Districts**

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

**State Compression Percentage.** The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller)

has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

**Maximum Compressed Tax Rate.** The Maximum Compressed Tax Rate (the “MCR”) is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district’s prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the school district’s prior year MCR, until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2025 Regular Legislative Session, the State Legislature took action to reduce the maximum MCR for the 2025-2026 school year. The MCR for the 2025-2026 school year is \$0.6322 and the floor is \$0.5689.

In calculating and making available school districts’ MCRs for the 2025-2026 school year, the TEA shall calculate and make available the rates as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, took effect. Such calculation for the 2025-2026 school year expires September 1, 2026. Pursuant to voter approval at a Statewide election held on November 4, 2025, the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution will increase (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000. The constitutional amendment takes effect for the tax year beginning January 1, 2025.

**Tier One Tax Rate.** A school district’s Tier One Tax Rate is defined as a school district’s M&O tax rate levied that does not exceed the school district’s MCR.

**Enrichment Tax Rate.** The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional \$0.17. The Enrichment Tax Rate is divided into two components: (i) “Golden Pennies” which are the first \$0.08 of tax effort in excess of a school district’s Tier One Tax Rate; and (ii) “Copper Pennies” which are the next \$0.09 in excess of a school district’s Tier One Tax Rate plus Golden Pennies.

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two.”

### **State Funding for School Districts**

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

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

The Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily

addresses the debt service needs of property-poor school districts. For the 2026-2027 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

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

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is supplemented for all school districts by various weights to account for differences among school districts and their student populations. Beginning in the 2026-27 school year, special education funding is provided through a service-intensity model, with the Commissioner establishing eight tiers of intensity and at least four service groups to determine funding levels based on the type and intensity of services students receive, rather than categorical placement. Additional allotments also support students who: (i) are diagnosed with dyslexia or a related disorder, (ii) are economically disadvantaged, or (iii) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the District's Basic Allotment, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding. The fast growth allotment weights change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for each year of the 2026-2027 State fiscal biennium.

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

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

the bonds were issued. For the 2026-2027 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the “EDA Yield”) is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district’s local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district’s bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding. Since future-year IFA awards were not funded by the State Legislature for the 2026-2027 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption. See “—State Funding for School Districts – Tax Rate and Funding Equity” below.

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

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

For the 2026-2027 school year, school districts will be held harmless and entitled to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling as such state law existed on January 1, 2025, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

### **Local Revenue Level in Excess of Entitlement**

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

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

***Options for Local Revenue Levels in Excess of Entitlement.*** Under Chapter 49, a school district has six (6) options to reduce local revenues to a level that does not exceed the school district’s respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district;

(3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters. A district that enters into an agreement to exercise an option to reduce the district's local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held an election to exercise said options may request and may receive approval from the Education Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Education Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Education Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Education Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Education Commissioner of the district's election to pay through a lump sum not later than March 15, 2026.

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

### **The School Finance System as Applied to the District**

For the 2025-2026 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District was not required to exercise one of the wealth equalization options permitted under applicable State law.

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

## **TAX RATE LIMITATIONS**

### **M&O Tax Rate Limitations**

A school district is authorized to levy M&O taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on June 3, 1967, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (now codified as Section 45.003, Texas Education Code, as amended).

The maximum M&O tax rate per \$100 of taxable assessed value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein.

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

### **I&S Tax Rate Limitations**

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness.

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

### **Public Hearing and Voter-Approval Tax Rate**

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

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

"No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

The governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency

audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

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

## **DEBT LIMITATIONS**

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax (such as the Bonds) from a tax not to exceed the maintenance tax limit described under the caption "TAX RATE LIMITATIONS – M&O Tax Rate Limitations." The Bonds are subject to the \$0.50 threshold tax rate test. See also "TAX RATE LIMITATIONS – I&S Tax Rate Limitations."

## **EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS**

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2025, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note 9. Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as APPENDIX D (the "Financial Statements").

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS.

Contribution requirements are not actuarially determined but are legally established each biennium by the State Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note 10. Post-Employment Health Benefits" in the Financial Statements.

During the year ended June 30, 2025, employees of the District were covered by a fully-insured health insurance plan (the “Health Care Plan”). The District contributed 0.75% of each employee’s salary per month to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

### **WEATHER EVENTS**

If a future weather event significantly damages all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the District’s tax rate. Under certain conditions, State law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon gubernatorial or presidential declaration of disaster (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”). There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

### **CYBERSECURITY**

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

### **RATING**

Moody’s Investors Service, Inc. (“Moody’s”) has assigned its municipal bond rating of “Aaa” to the Bonds based upon the Permanent School Fund Guarantee as Moody’s generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa” (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein).

The District’s underlying rating without regard to credit enhancement is “Aa3” by Moody’s.

An explanation of the significance of such ratings may be obtained from Moody’s. The ratings reflect only the view of Moody’s and the District makes no representation as to the appropriateness of any rating. The ratings are not a recommendation to buy, sell or hold the Bonds, and any rating may be subject to revision or withdrawal at any time by Moody’s. Any downward revision or withdrawal of the rating may have an adverse effect on the market price or marketability of the Bonds.

### **LEGAL MATTERS**

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of FBT Gibbons LLP and Powell Law Group LLP, Co-Bond Counsel to the District (“Co-Bond Counsel”) that the Bonds are valid and legally binding obligations of the District. FBT Gibbons LLP, as Tax Counsel, will deliver its opinion that the interest on the Bonds is excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under “TAX MATTERS” herein. The forms of Co-Bond Counsel’s and Tax Counsel’s opinions are attached hereto as APPENDIX C.

Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Co-Bond Counsel, such firms have reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Tax Counsel, such firm has reviewed the information under the caption “TAX MATTERS” in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The District intends to pay the legal fees of Co-Bond Counsel and Tax Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds.

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

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Tax Counsel to the effect that interest on the Bonds for federal income tax purposes (i) is excludable from gross income of the owners thereof pursuant to Section 103 of the Code, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed certain on corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Tax Counsel’s opinion appears in APPENDIX C attached hereto.

For tax years beginning after December 31, 2022, corporations that are classified as an “applicable corporation” (as defined in Section 59(k) of the Code) may be subject to an alternative minimum tax imposed under section 55 of the Code on their “adjusted financial statement income” (as defined in Section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in an applicable corporation’s “adjusted financial statement income,” ownership of the Bonds could subject an applicable corporation to alternative minimum tax consequences.

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

Except as described above, FBT Gibbons LLP, Houston, Texas, as Tax Counsel, will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Tax Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Tax Counsel, and Tax Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

## **Tax Changes**

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

## **Ancillary Tax Consequences**

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

## **Tax Accounting Treatment of Discount Bonds**

Any Bonds that have an original yield above their interest rate, as set forth herein (for purposes of this section, the “Tax-Exempt OID Bonds”), are being initially offered and sold to the public at an original issue discount (“OID”) from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the “issue price” of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond. The amount accrued will be based on a single rate of interest, compounded semiannually (the “yield to maturity”) and, during each semi-annual period, the amount will accrue ratably on a daily basis. The OID accrued during the period that an initial purchaser of a Tax-Exempt OID Bond at its issue price owns it is added to the purchaser’s tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Tax-Exempt OID Bond. In practical effect, accrued OID is treated as stated interest, that is, excludible from gross income for federal income tax purposes.

In addition, original issue discount that accrues in each year to an owner of a Tax-Exempt OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the ancillary federal income tax consequences discussed above. Consequently, owners of any Tax-Exempt OID Bond should be aware that the accrual of original issue discount in each year may result in an corporate alternative minimum tax liability, if applicable, additional distribution requirements or other ancillary federal income tax consequences although the owner of such Tax-Exempt OID Bond has not received cash attributable to such original issue discount in such year.

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

## **Tax Accounting Treatment of Premium Bonds**

“Acquisition Premium” is the excess of the cost of a bond over the stated redemption price of such bond. Any Bonds that are being sold at original yield below their interest rate, as set forth herein (collectively, the “Premium Bonds”), are being initially offered and sold to the public with Acquisition Premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. This amount is amortized ratably over that semiannual period on a daily basis. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. For federal income tax purposes, the amount of Acquisition Premium on the Premium Bonds must be amortized and will reduce the bondholder’s adjusted basis in that bond; however, no amount of amortized Acquisition Premium on the Premium Bonds may be deducted in determining bondholder’s taxable income for federal income tax purposes. As a result, an owner may realize taxable gain for federal income tax purposes

from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

### **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **INVESTMENT POLICIES**

### **Investments**

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

### **Investment Authority and Investment Practices of the District**

Under State law, the District is authorized to invest in: (1) obligations of the United States, including letters of credit, or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository

institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits or, (ii) certificates of deposit where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (ii)(a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit issued for the account of the District; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below and "corporate bonds," require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with SEC Rule 2a-7; and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and is invested exclusively in obligations described in the this paragraph, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below. A political subdivision such as the District may enter into securities lending programs if: (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any

individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

### **Current Investments**

As of December 31, 2025, the District had approximately \$30,649,918 (unaudited) invested in bank deposits and money market funds. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

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

### **FINANCIAL ADVISOR**

D.A. Davidson & Co. is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the MSRB's Electronic Municipal Market Access System ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in APPENDIX D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in

each case beginning with the fiscal year ending in and after 2026. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 promulgated by the United States Securities and Exchange Commission (“Rule 15c2-12”).

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year and the Financial Statements must be provided by June 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

### **Notice of Certain Events**

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

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. For the purposes of the above describe event notices (15) and (16), the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

### **Availability of Information from MSRB**

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

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District

disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

### **Compliance with Prior Undertakings**

The District has complied in all material respects with all undertakings made by it in accordance with Rule 15c2-12.

## **UNDERWRITING**

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

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

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

## **LITIGATION**

In the opinion of District officials, except as may be described in this Official Statement, the District is not a party to any litigation or other proceeding pending or to their knowledge threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

## **FORWARD-LOOKING STATEMENTS**

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

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

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

**CONCLUDING STATEMENT**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which the District considers to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12.

The Order will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Underwriters.

\_\_\_\_\_  
President, Board of Trustees

ATTEST:

\_\_\_\_\_  
Secretary, Board of Trustees

**APPENDIX A**

FINANCIAL INFORMATION REGARDING THE DISTRICT

**FINANCIAL INFORMATION REGARDING THE  
KEMP INDEPENDENT SCHOOL DISTRICT**

**TABLE 1 - VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT**

2025 Market Valuation Established by the Appraisal Districts.....	\$ 2,158,262,689
<u>Less Exemptions</u>	
State Mandated General Homestead Exemptions.....	303,089,707
State Mandated Over 65 Homestead Exemptions.....	32,632,340
State Mandated Disabled Persons Exemptions.....	2,633,016
Veterans Exemptions.....	9,170,020
Productivity Loss.....	561,287,972
Freeport Exemption.....	763,806
Capped Value Loss.....	204,078,159
Freeze Value Loss.....	65,708,596
Other.....	<u>197,412</u>
 Total Exemptions	 <u>\$ 1,179,561,028</u>
 2025 Certified Taxable Assessed Valuation.....	 <u>\$ 978,701,661</u>

**GENERAL OBLIGATION DEBT OUTSTANDING**

Outstanding Unlimited Tax Debt Service.....	\$	35,774,990
Plus: the Bonds	\$	65,000,000 <sup>(1)</sup>
Less: Interest & Sinking Fund Balance (as of June 30, 2025).....		<u>(1,260,010)</u>
Net Unlimited Tax Debt (as of June 30, 2025).....	<u>\$</u>	<u>99,514,980</u>
 Ratio Net General Obligation Debt to 2025 Taxable Assessed Valuation .....		 10.17%

Estimated 2025 District Population		15,372
Per Capita Net Valuation	\$	63,668
Per Capita Actual Valuation	\$	140,402
Per Capita Net Debt	\$	6,474

(1) Preliminary, subject to change.

**TABLE 2 - TAXABLE ASSESSED VALUATION BY CATEGORY**

	Taxable Appraised Value for Fiscal Year Ended,					
	2026		2025		2024	
	Amount	% Of Total	Amount	% Of Total	Amount	% Of Total
Real, Residential, Single-Family	\$ 688,653,916	33.72%	\$ 672,962,089	32.95%	\$ 727,074,025	38.10%
Real, Residential, Multi-Family	21,826,776	1.07%	21,238,507	1.04%	20,310,488	1.06%
Real, Vacant Lots/Tracts	91,507,514	4.48%	93,407,214	4.57%	82,891,415	4.34%
Real, Acreage (Land Only)	568,509,203	27.84%	588,038,850	28.79%	505,775,397	26.50%
Real, Farm and Ranch Improvements	573,271,204	28.07%	464,605,625	22.75%	357,179,540	18.72%
Real, Commercial	94,651,108	4.63%	78,393,667	3.84%	70,689,935	3.70%
Real, Industrial	8,830,092	0.43%	8,449,023	0.41%	7,773,058	0.41%
Real, Oil, Gas and Other Mineral Reserves	651,659	0.03%	965,516	0.05%	220,884	0.01%
Real and Tangible Personal, Utilities	37,508,899	1.84%	41,215,678	2.02%	56,364,197	2.95%
Tangible Personal, Commercial	15,270,910	0.75%	23,910,990	1.17%	21,124,167	1.11%
Tangible Personal, Industrial	7,896,601	0.39%	5,986,536	0.29%	20,948,960	1.10%
Tangible Personal, Mobile Homes	41,257,667	2.02%	42,106,028	2.06%	26,764,610	1.40%
Residential, Inventory	8,098,680	0.40%	495,757	0.02%	11,096,690	0.58%
Special Inventory	328,460	0.02%	489,852	0.02%	183,251	0.01%
Total Appraised Value Before Exemptions:	\$ 2,158,262,689	105.68%	\$ 2,042,265,332	100.00%	\$ 1,908,396,617	100.00%
Less: Total Exemptions/Reductions:	(1,179,561,028)		(1,106,024,423)		(1,052,829,492)	
Taxable Assessed Value:	<u>\$ 978,701,661</u>		<u>\$ 936,240,909</u>		<u>\$ 855,567,125</u>	

	Taxable Appraised Value for Fiscal Year Ended,					
	2023		2022		2021	
	Amount	% Of Total	Amount	% Of Total	Amount	% Of Total
Real, Residential, Single-Family	\$ 558,644,709	37.30%	\$ 385,196,127	34.61%	\$ 359,752,631	36.24%
Real, Residential, Multi-Family	16,892,403	1.13%	16,350,116	1.47%	16,836,540	1.70%
Real, Vacant Lots/Tracts	78,527,116	5.24%	60,388,422	5.43%	42,150,107	4.25%
Real, Acreage (Land Only)	357,550,603	23.87%	309,439,630	27.80%	269,192,617	27.12%
Real, Farm and Ranch Improvements	311,624,487	20.80%	192,922,771	17.33%	164,871,241	16.61%
Real, Commercial	65,172,982	4.35%	51,235,170	4.60%	44,934,800	4.53%
Real, Industrial	5,341,610	0.36%	3,250,950	0.29%	1,799,450	0.18%
Real, Oil, Gas and Other Mineral Reserves	222,966	0.01%	219,371	0.02%	250,424	0.03%
Goods In Transit	-	0.00%	-	0.00%	-	0.00%
Real and Tangible Personal, Utilities	42,568,398	2.84%	41,926,168	3.77%	39,641,540	3.99%
Tangible Personal, Commercial	18,561,829	1.24%	17,189,885	1.54%	16,830,911	1.70%
Tangible Personal, Industrial	12,115,452	0.81%	8,655,588	0.78%	5,558,830	0.56%
Tangible Personal, Mobile Homes	25,122,857	1.68%	21,276,124	1.91%	19,217,664	1.94%
Residential, Inventory	5,045,364	0.34%	4,889,693	0.44%	11,647,800	1.17%
Special Inventory	454,835	0.03%	125,818	0.01%	88,710	0.01%
Total Appraised Value Before Exemptions:	\$ 1,497,845,611	100.00%	\$ 1,113,065,833	100.00%	\$ 992,773,265	100.00%
Less: Total Exemptions/Reductions:	(738,173,870)		(504,104,581)		(428,113,622)	
Adjustment	-		-		-	
Taxable Assessed Value:	<u>\$ 759,671,741</u>		<u>\$ 608,961,252</u>		<u>\$ 564,659,643</u>	

**TABLE 3 - VALUATION AND TAX-SUPPORTED DEBT HISTORY**

Fiscal Year Ended 6/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Debt Outstanding at End of Year	Ratio of Debt to Taxable Assessed Valuation	Debt Per Capita
2022	12,736	\$ 608,961,252	\$ 47,814	\$ 17,229,993	2.83%	\$1,353
2023	13,376	\$ 759,671,741	\$ 56,794	\$ 15,307,506	2.02%	\$1,144
2024	14,005	\$ 855,567,125	\$ 61,090	\$ 14,939,505	1.75%	\$1,067
2025	15,372	\$ 936,240,909	\$ 60,906	\$ 37,184,990	3.97%	\$2,419
2026	16,374	\$ 978,701,661	\$ 59,772	\$ 96,944,990	9.91%	\$5,921

<sup>(1)</sup> Source: Municipal Advisory Council of Texas.

<sup>(2)</sup> Source: Appraisal Districts and District Financial Records

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY<sup>(1)</sup>**

Fiscal Year Ended	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	1.30793	0.97560	0.33233	7,053,825	96.73%	102.54%
2022	1.24150	0.96000	0.28150	8,133,278	94.20%	99.06%
2023	1.19197	0.94200	0.24997	9,055,082	93.21%	97.22%
2024	0.97673	0.75720	0.21953	8,356,606	91.75%	98.12%
2025	0.97443	0.75490	0.21953	9,387,458	92.34%	97.70%
2026	1.17350	0.70870	0.46480	11,420,670	In Process of Collection	

<sup>(1)</sup> Source: Municipal Advisory Council of Texas and District Financial Records.

**TABLE 5 - TEN LARGEST TAXPAYERS<sup>(1)</sup>**

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Seaway Crude Pipeline LP	Oil & Gas	\$ 26,662,725	3.51%
Arcosa Aggregates Inc.	Industrial	17,492,574	2.30%
TFG Hamlins LLC	Apartments	15,699,019	2.07%
Kemp Lakeside Investors LLC	Developer	12,312,644	1.62%
El Viejo	Restaurant	8,900,000	1.17%
Oncor Electric Delivery Company	Electric	9,246,530	1.22%
MRT of Kemp TX SNF LLC	Medical Clinic	5,250,000	0.69%
Bridge Hollow Ranch LLC	Real Estate	4,517,178	0.59%
Payne Investment Properties	Real Estate	5,494,914	0.72%
Larson Electronics	Distribution	2,728,481	0.36%
		<u>108,304,065</u>	<u>14.26%</u>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas and District Financial Records.

As shown in the table above, the top ten taxpayers in the District currently account for over 14% of the District's tax base. Adverse developments in economic conditions could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually or to fund debt service payments from other resources, if available. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM" in the Official Statement.

**TABLE 6 - TAX-SUPPORTED DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**

FYE 6/30	Outstanding Debt Service			Plus: the Bonds <sup>(2)</sup>			Outstanding Debt Service		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2026	3,830,000	854,304	4,684,304				3,830,000	854,304	4,684,304
2027	889,990	2,730,183	3,620,173	-	1,828,125	1,828,125	889,990	4,558,308	5,448,298
2028	1,575,000	1,290,798	2,865,798	-	2,925,000	2,925,000	1,575,000	4,215,798	5,790,798
2029	1,660,000	1,236,640	2,896,640	-	2,925,000	2,925,000	1,660,000	4,161,640	5,821,640
2030	2,090,000	1,205,795	3,295,795	-	2,925,000	2,925,000	2,090,000	4,130,795	6,220,795
2031	2,145,000	1,152,214	3,297,214	-	2,925,000	2,925,000	2,145,000	4,077,214	6,222,214
2032	2,130,000	1,086,536	3,216,536	-	2,925,000	2,925,000	2,130,000	4,011,536	6,141,536
2033	1,370,000	1,019,275	2,389,275	1,000,000	2,925,000	3,925,000	2,370,000	3,944,275	6,314,275
2034	490,000	977,925	1,467,925	1,645,000	2,880,000	4,525,000	2,135,000	3,857,925	5,992,925
2035	510,000	953,425	1,463,425	1,720,000	2,805,975	4,525,975	2,230,000	3,759,400	5,989,400
2036	535,000	927,925	1,462,925	1,795,000	2,728,575	4,523,575	2,330,000	3,656,500	5,986,500
2037	565,000	901,175	1,466,175	1,875,000	2,647,800	4,522,800	2,440,000	3,548,975	5,988,975
2038	595,000	872,925	1,467,925	1,960,000	2,563,425	4,523,425	2,555,000	3,436,350	5,991,350
2039	620,000	843,175	1,463,175	2,050,000	2,475,225	4,525,225	2,670,000	3,318,400	5,988,400
2040	655,000	812,175	1,467,175	2,140,000	2,382,975	4,522,975	2,795,000	3,195,150	5,990,150
2041	685,000	779,425	1,464,425	2,235,000	2,286,675	4,521,675	2,920,000	3,066,100	5,986,100
2042	720,000	745,175	1,465,175	2,335,000	2,186,100	4,521,100	3,055,000	2,931,275	5,986,275
2043	755,000	709,175	1,464,175	2,445,000	2,081,025	4,526,025	3,200,000	2,790,200	5,990,200
2044	795,000	671,425	1,466,425	2,550,000	1,971,000	4,521,000	3,345,000	2,642,425	5,987,425
2045	835,000	631,675	1,466,675	2,665,000	1,856,250	4,521,250	3,500,000	2,487,925	5,987,925
2046	875,000	589,925	1,464,925	2,785,000	1,736,325	4,521,325	3,660,000	2,326,250	5,986,250
2047	920,000	546,175	1,466,175	2,915,000	1,611,000	4,526,000	3,835,000	2,157,175	5,992,175
2048	965,000	500,175	1,465,175	3,045,000	1,479,825	4,524,825	4,010,000	1,980,000	5,990,000
2049	1,010,000	454,338	1,464,338	3,180,000	1,342,800	4,522,800	4,190,000	1,797,138	5,987,138
2050	1,060,000	406,363	1,466,363	3,325,000	1,199,700	4,524,700	4,385,000	1,606,063	5,991,063
2051	1,110,000	356,013	1,466,013	3,475,000	1,050,075	4,525,075	4,585,000	1,406,088	5,991,088
2052	1,160,000	303,288	1,463,288	3,630,000	893,700	4,523,700	4,790,000	1,196,988	5,986,988
2053	1,215,000	248,188	1,463,188	3,795,000	730,350	4,525,350	5,010,000	978,538	5,988,538
2054	1,275,000	190,475	1,465,475	3,965,000	559,575	4,524,575	5,240,000	750,050	5,990,050
2055	1,335,000	129,913	1,464,913	4,140,000	381,150	4,521,150	5,475,000	511,063	5,986,063
2056	1,400,000	66,500	1,466,500	4,330,000	194,850	4,524,850	5,730,000	261,350	5,991,350
	<b>35,774,990</b>	<b>24,192,694</b>	<b>59,967,684</b>	<b>65,000,000</b>	<b>59,422,500</b>	<b>124,422,500</b>	<b>100,774,990</b>	<b>83,615,194</b>	<b>184,390,184</b>

<sup>(1)</sup> Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "TABLE 9 - LIMITED TAX DEBT AND OTHER OBLIGATIONS").

<sup>(2)</sup> Preliminary, subject to change.

**TABLE 7 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Tax Supported Debt Service Requirements, Fiscal Year Ending June 30, 2026		4,684,304
Interest and Sinking Fund Balance as of June 30, 2025	1,260,010	
Budgeted Interest and Sinking Fund Tax Levy	4,502,028	
State ASAHE	<u>309,514</u>	<u>6,071,552</u>
Estimated Fund Balance, Fiscal Year Ending June 30, 2026		<u>1,387,247</u>

**TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

**Unlimited Tax Bonds Authorized**

Authorization Date	Amount Authorized	The Bonds*	Remaining Authorization
May 3, 2025	\$ 90,000,000	\$ 65,000,000	\$ -

\*Preliminary, subject to change.

**TABLE 9 - LIMITED TAX DEBT AND OTHER OBLIGATIONS**

**Limited Tax Debt Service**

Year Ended	Principal	Interest	Total
<u>June 30</u> 2026	248,000	16,741	264,741
Total	<u>\$ 248,000</u>	<u>\$ 16,741</u>	<u>\$ 264,741</u>

See description of other obligations in the District's financial audit - Note G.

**TABLE 10 - OVERLAPPING DEBT**

Issuer Name	Debt Amount	As Of Date	Pct Overlap	Overlap Amount
Henderson Co	\$ -	03/15/2026	1.79%	\$ -
Kaufman Co	\$ 169,615,000	03/15/2026	3.66%	\$ 6,207,909
City of Kemp	\$ 2,619,000	03/15/2026	100.00%	\$ 2,619,000
City of Mabank	\$ 33,453,000	03/15/2026	7.98%	\$ 2,669,549
Total Overlapping Debt:				<u>\$11,496,458</u>
Kemp ISD:		03/15/2026		\$99,514,980
Total Direct and Overlapping Debt:				\$111,011,438

**TABLE 11 - CHANGE IN NET ASSETS**

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
<u>Program Revenues:</u>					
Charges for Services	\$ 727,329	\$ 757,673	\$ 554,002	\$ 645,481	\$ 192,740
Operating Grants and Contributions	6,307,184	6,115,668	6,268,000	4,598,116	4,047,095
<u>General Revenues:</u>					
Property Taxes	9,460,860	8,224,830	9,793,590	8,315,343	7,076,642
Grants and Contributions Not Restricted	-	530,053	53,080	-	-
State Aid - Formula	15,160,079	15,224,418	11,889,159	12,206,022	11,991,198
Investment Earnings	294,698	356,559	193,989	40,616	57,821
Other	144,778	192,112	148,051	-	93,990
Total Revenues:	<u>\$32,094,928</u>	<u>\$31,401,313</u>	<u>\$28,899,871</u>	<u>\$25,805,578</u>	<u>\$23,459,486</u>
<u>Expenditures:</u>					
Instruction	\$16,486,840	\$14,567,317	\$12,858,988	\$11,784,849	\$12,366,898
Instructional Resource and Media Services	253,901	291,476	278,452	309,879	275,927
Curriculum Development and Instructional Staff Development	289,461	256,126	209,278	148,093	147,132
Instructional Leadership	178,612	158,349	146,663	148,562	192,773
School Leadership	1,829,166	1,494,654	1,192,438	1,039,608	1,224,539
Guidance, Counseling and Evaluation Services	1,021,110	605,413	564,072	477,174	665,448
Health Services	423,694	365,671	318,734	315,949	298,322
Student (Pupil) Transportation	1,414,173	1,255,346	1,152,430	801,006	905,695
Food Services	1,725,964	1,806,326	1,415,331	1,076,366	1,033,722
CoCurricular/Extracurricular Activities	1,223,725	1,144,065	961,361	881,138	1,004,321
General Administration	1,359,235	1,358,690	1,261,190	1,048,084	1,124,487
Plant Maintenance and Operations	2,534,114	2,223,691	2,130,158	1,910,483	2,012,781
Security and Monitoring Services	1,187,177	1,185,098	556,085	103,122	121,258
Data Processing Services	581,067	512,126	399,185	400,066	481,647
Community Services	358	397	-	-	-
Interest on Long-term Debt	502,707	528,054	710,159	858,275	849,070
Facility Repairs	77,773	65,884	1,122,054	-	-
Bond Issuance Costs and Fees	-	-	-	-	5,111
Other Intergovernmental Charges	242,229	351,321	308,742	273,848	98,613
Total Expenditures:	<u>\$31,331,306</u>	<u>\$28,170,004</u>	<u>\$25,585,320</u>	<u>\$21,576,502</u>	<u>\$22,807,744</u>
Excess (Deficiency) Before Other Resources, Uses & Transfers	\$ 763,622	\$ 3,231,309	\$ 3,314,551	\$ 4,229,076	\$ 651,742
Beginning Net Assets	14,394,582	12,518,687	9,204,136	4,975,060	4,170,320
Prior Period Adjustments <sup>(1)</sup>	-	(1,355,414)	-	-	152,998
Ending Net Assets	<u>15,158,204</u>	<u>14,394,582</u>	<u>12,518,687</u>	<u>9,204,136</u>	<u>4,975,060</u>

<sup>(1)</sup> During the year ended June 30, 2024, the District identified capital assets that were overstated for the year ended June 30, 2023. As a result, the District has restated net position of governmental activities as of July 1, 2023 to reflect these corrections. Please see District's financial audit for more information.

**TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ending June 30,				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
<b>Beginning Fund Balance</b>	<b><u>11,230,269</u></b>	<b><u>11,653,454</u></b>	<b><u>9,490,605</u></b>	<b><u>7,301,868</u></b>	<b><u>7,826,938</u></b>
<u>Revenues:</u>					
State Program Revenues	7,625,991	7,225,874	8,119,481	6,821,954	5,614,058
Federal Program Revenues	16,371,692	16,381,473	12,731,786	13,226,560	12,853,011
Local and Intermediate Sources	<u>213,776</u>	<u>815,108</u>	<u>727,270</u>	<u>854,258</u>	<u>361,093</u>
<b>Total Revenues:</b>	<b><u>24,211,459</u></b>	<b><u>24,422,455</u></b>	<b><u>21,578,537</u></b>	<b><u>20,902,772</u></b>	<b><u>18,828,162</u></b>
<u>Expenditures:</u>					
Instruction and Instructional-Related Services	13,808,386	11,719,386	9,743,600	10,365,897	9,751,538
Instructional and School Leadership	1,881,942	1,619,314	1,362,762	1,237,815	1,292,488
Support Services - Student (Pupil)	3,536,996	2,886,869	2,503,991	2,385,762	2,554,949
Administrative Support Services	1,295,745	1,287,371	1,253,347	1,094,829	1,057,225
Support Services - Non-Student Based	3,721,054	3,310,107	2,859,016	2,471,527	2,490,123
Debt Service	283,032	279,685	441,745	670,865	670,948
Capital Outlay	1,586,800	3,511,938	1,189,845	379,268	-
Intergovernmental Charges	<u>113,119</u>	<u>118,155</u>	<u>123,234</u>	<u>108,072</u>	<u>98,613</u>
<b>Total Expenditures:</b>	<b><u>26,227,074</u></b>	<b><u>24,732,825</u></b>	<b><u>19,477,540</u></b>	<b><u>18,714,035</u></b>	<b><u>17,915,884</u></b>
Excess (Deficiency) of Revenues Over Expenditures:	(2,015,615)	(310,370)	2,100,997	2,188,737	912,278
Other Resources and (Uses):	(45,612)	(112,815)	61,852		(1,590,346)
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses:	(2,061,227)	(423,185)	2,162,849	2,188,737	(678,068)
Prior Period Adjustment:					152,998
Ending Fund Balance:	<b><u>\$ 9,169,042</u></b>	<b><u>\$ 11,230,269</u></b>	<b><u>\$ 11,653,454</u></b>	<b><u>\$ 9,490,605</u></b>	<b><u>\$ 7,301,868</u></b>

Source: District's Audited Financial Statements.

**TABLE 13 - CURRENT INVESTMENTS**

As of December 31, 2025, the District's investable funds were invested in the following categories:

<u>Description</u>	
Certificates of Deposit	13,141,362
Lone Star Investments	1,047,684
Texas CLASS Investments	9,626,350
TexPool Investment Pool	6,834,522
<b>TOTAL</b>	<b><u>30,649,918</u></b>

**APPENDIX B**

GENERAL INFORMATION REGARDING THE DISTRICT

**KEMP INDEPENDENT SCHOOL DISTRICT  
GENERAL INFORMATION REGARDING THE DISTRICT**

Kemp Independent School District (the “District”) is located in Kaufman and Henderson Counties, Texas (the “County”), which covers 170.82 square miles and is located southeast of Dallas, Texas on U.S. Highway 175.

**DISTRICT ENROLLMENT INFORMATION  
Scholastic Enrollment History**

<u>Fiscal Year</u>	<u>Actual Enrollment</u>	<u>Increase/(Decrease)</u>	
		<u>Number</u>	<u>Percentage</u>
2025/26	1,993	6	0.30%
2024/25	1,987	20	1.01%
2023/22	1,967	132	7.19%
2022/23	1,835	125	7.30%
2021/22	1,710	56	3.30%
2020/21	1,654	30	1.80%
2019/20	1,624		

Source: Texas Education Agency

**Enrollment Summary By Grades**

	<u>EE</u>	<u>PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
2024/25	10	112	120	131	146	161	152	144	162	136	141	153	176	138	105	1,987
2023/24	10	110	125	145	166	143	137	149	138	133	144	178	152	119	118	1,967
2022/23	10	92	127	151	123	131	137	114	119	134	148	174	127	137	111	1,835
2020/21	10	90	111	119	122	129	96	119	129	136	126	133	130	108	107	1,654
2019/20	10	95	111	113	120	92	114	131	139	123	112	138	124	116	100	1,624

Source: Texas Education Agency.

**APPENDIX C**

FORMS OF LEGAL OPINION OF  
CO-BOND COUNSEL AND TAX COUNSEL



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\_\_\_\_\_, 2026

WE HAVE ACTED as Co-Bond Counsel for KEMP INDEPENDENT SCHOOL DISTRICT (the “*District*”), in connection with the issuance of bonds (the “*Bonds*”) described as follows:

KEMP INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026, dated \_\_\_\_\_, 2026, in the principal amount of \$\_\_\_\_\_ and maturing on February 15 in the years \_\_\_\_ through \_\_\_\_\_, inclusive, and in the years \_\_\_\_ and \_\_\_\_\_. The Bonds are issuable in fully-registered form only, in denominations of \$5,000 of the principal amount or integral multiples thereof, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the bond order (the “*Order*”) adopted by the Board of Trustees of the District authorizing their issuance. Capitalized terms used herein and not otherwise defined shall have the meanings so assigned in the Order.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion (the “*Opinion*”) with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have participated in the preparation of, and have examined, a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations, and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We also have examined executed Bond No. R-1 of this issue. We also have examined such portions of the Constitution and statutes of the State of Texas as we have deemed necessary for the purposes of rendering this Opinion.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED UPON SUCH EXAMINATION, it is our opinion that, under existing law:

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District, enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions, and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with existing law; and

(B) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

OUR OPINION IS BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this Opinion to reflect any facts or circumstances that may thereafter come to our attention, or to reflect any changes in any law that may thereafter occur or become effective. Moreover, this Opinion is not a guarantee of result and represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above. We express no opinion as to any matters not specifically covered hereby.

Respectfully submitted,

\_\_\_\_\_, 2026

WE HAVE ACTED AS SPECIAL TAX COUNSEL (“*Special Tax Counsel*”) to the KEMP INDEPENDENT SCHOOL DISTRICT (the “*District*”) in connection with the issuance by the District of its Unlimited Tax School Building Bonds, Series 2026 in the aggregate principal amount of \$\_\_\_\_\_ (the “*Bonds*”). The Bonds are authorized pursuant to an election held May 3, 2025, and a bond order Authorizing the Issuance of Kemp Independent School District Unlimited Tax School Building Bonds, Series 2026, adopted on March 23, 2026, by the Board of Trustees of the District (the “*Bond Order*”).

AS SPECIAL TAX COUNSEL, we have reviewed (1) the applicable and pertinent laws of the United States of America, (2) the opinion of FBT Gibbons LLP and Powell Law Group, L.L.P as co-bond counsel to the District (the “*Bond Counsel*”), (3) customary certifications and opinion of officials of the Issuer, (4) certificates executed by officers of the District relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer and the projects financed thereby and to certain other facts solely within the knowledge and control of the District (the “*Tax Certificate*”), (5) the Bond Order and certain tax covenants therein, and (6) such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates.

WE HAVE SERVED AS SPECIAL TAX COUNSEL for the District solely to pass upon the matters set forth in our opinion below for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the District. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds or the accuracy, adequacy, or completeness of any offering material relating to the Bonds. With respect to the validity of the Bonds, we are relying upon the opinion of Bond Counsel. We express no opinion concerning any effect on the following opinion which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that as of the date hereof, and assuming continuing compliance after the date hereof by the Issuer with the provisions of the Bond Order, including the tax covenants therein, and in reliance upon the representations and certifications of the District made in the Tax Certificate that:

Under existing federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as in effect on the date hereof (the “*Code*”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations.

WE NOTE THAT the Bonds have not been designated as “qualified tax-exempt obligations” under Section 265 of the Code.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the ownership, acquisition or disposition of, the Bonds.

OUR OPINION IS BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this Opinion to reflect any facts or circumstances that may thereafter come to our attention, or to reflect any changes in any law that may thereafter occur or become effective. Moreover, this Opinion is not a guarantee of result and represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above. We express no opinion as to any matters not specifically covered hereby.

Respectfully submitted,

**FBT Gibbons LLP**

**APPENDIX D**

AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2025

Financial Statements  
June 30, 2025

# Kemp Independent School District

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**Certificate of the Board**

Kemp Independent School District  
Name of School District

Kaufman  
County

129-904  
District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the year ended June 30, 2025 at a meeting of the Board of Trustees of such school district on the 15<sup>th</sup> day of December 2025.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproves of the auditors' report, the reason(s) for disapproving it is/are:  
(attach list if necessary)

## **FINANCIAL SECTION**



## Independent Auditor's Report

The Board of Trustees of  
Kemp Independent School District  
803 S. Main Street Drive  
Kemp, Texas 75143

### Report on the Audit of the Financial Statements

#### *Opinions*

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

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

#### *Basis for Opinions*

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

#### *Responsibilities of Management for the Financial Statements*

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Required Supplementary Information***

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

### ***Supplementary Information***

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

### ***Other Information***

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Abilene, Texas  
December 5, 2025

The management of Kemp Independent School District ("the District") offer readers of the annual financial report this narrative discussion and analysis of the District's financial performance for the twelve-month period ended June 30, 2025. Readers are encouraged to consider the information presented here in conjunction with the District's financial statements, which follow this analysis.

### FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$15,158,204.
- The government-wide statements reported total revenues of \$32 million, which exceeded total expenditures of \$31.3 million and resulted in a net increase of net position of \$764 thousand over beginning net position of \$14.4 million.
- The governmental funds financial statements reported combined ending fund balance of \$12.1 million for the twelve-month period ending June 30, 2025, a decrease of \$1.7 million over beginning fund balance of \$13.9 million. This balance consists of \$9.2 million in the General Fund, \$8.1 million of which is unassigned and available for spending at the District's discretion, \$176 thousand is nonspendable for prepaids and \$884 thousand is committed for building renovation. Restricted fund balance totals \$2.7 million and is included in the Debt Service Fund, Capital Projects Fund and Non-Major Funds. Committed fund balance for campus activities totals \$203 thousand.
- The General Fund had \$24.2 million in revenues, which primarily consisted of local property taxes and state aid. Expenditures of \$26.2 million, resulted in a decrease in fund balance by \$2.1 million for the twelve-month period ended June 30, 2025.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

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

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

Major features of the District’s [government-wide](#) and [fund financial statements](#) are summarized below:

Type of Statement	Government-Wide	Fund Financials		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire District’s government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Activities the District operates similar to private business-health insurance and worker’s compensation	Instances in which the District is the trustee or agent for someone else’s resources
<b>Required Financial Statements</b>	<ul style="list-style-type: none"> <li>Statement of net position</li> <li>Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance sheet</li> <li>Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>Statement of net position</li> <li>Statement of revenues, expenditures, and changes in fund balance</li> </ul>	<ul style="list-style-type: none"> <li>Statement of fiduciary net position</li> <li>Statement of change in net position</li> </ul>
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	All revenue and expenses during the year, regardless of when cash is received or paid.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

**Government-Wide Financial Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

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

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

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

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

### **Notes to the Basic Financial Statements**

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

### **Other Information**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District's combined net position increased \$764 thousand from the previous year, as can be seen on the following table.

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	
Current and other assets	\$ 15,377,993	36	\$ 17,469,416	40	\$ (2,091,423)	
Capital assets, net of accumulated depreciation/amortization	<u>27,001,991</u>	64	<u>26,652,746</u>	60	<u>349,245</u>	
Total assets	42,379,984	100	44,122,162	100	(1,742,178)	
Total deferred outflows of resources	6,059,809	100	5,241,751	100	818,058	
Other liabilities	2,396,658	8	3,057,782	10	(661,124)	
Long-term liabilities outstanding	<u>25,920,811</u>	92	<u>26,076,278</u>	90	<u>(155,467)</u>	
Total liabilities	28,317,469	100	29,134,060	100	(816,591)	
Total deferred inflows of resources	4,964,120	100	5,835,271	100	(871,151)	
Net position:						
Net investment in capital assets	14,338,050	95	11,729,696	81	2,608,354	
Restricted for grants	1,255,020	8	970,752	7	284,268	
Restricted for debt service	1,260,010	8	1,188,646	8	71,364	
Unrestricted	<u>(1,694,876)</u>	(11)	<u>505,488</u>	4	<u>(2,200,364)</u>	
<b>Total net position</b>	<u>\$ 15,158,204</u>	<u>100</u>	<u>\$ 14,394,582</u>	<u>100</u>	<u>\$ 763,622</u>	

The District's capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 64 percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable, state revenue receivable, inventories and prepaid assets.

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

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

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

The change in net position is attributed to the following:

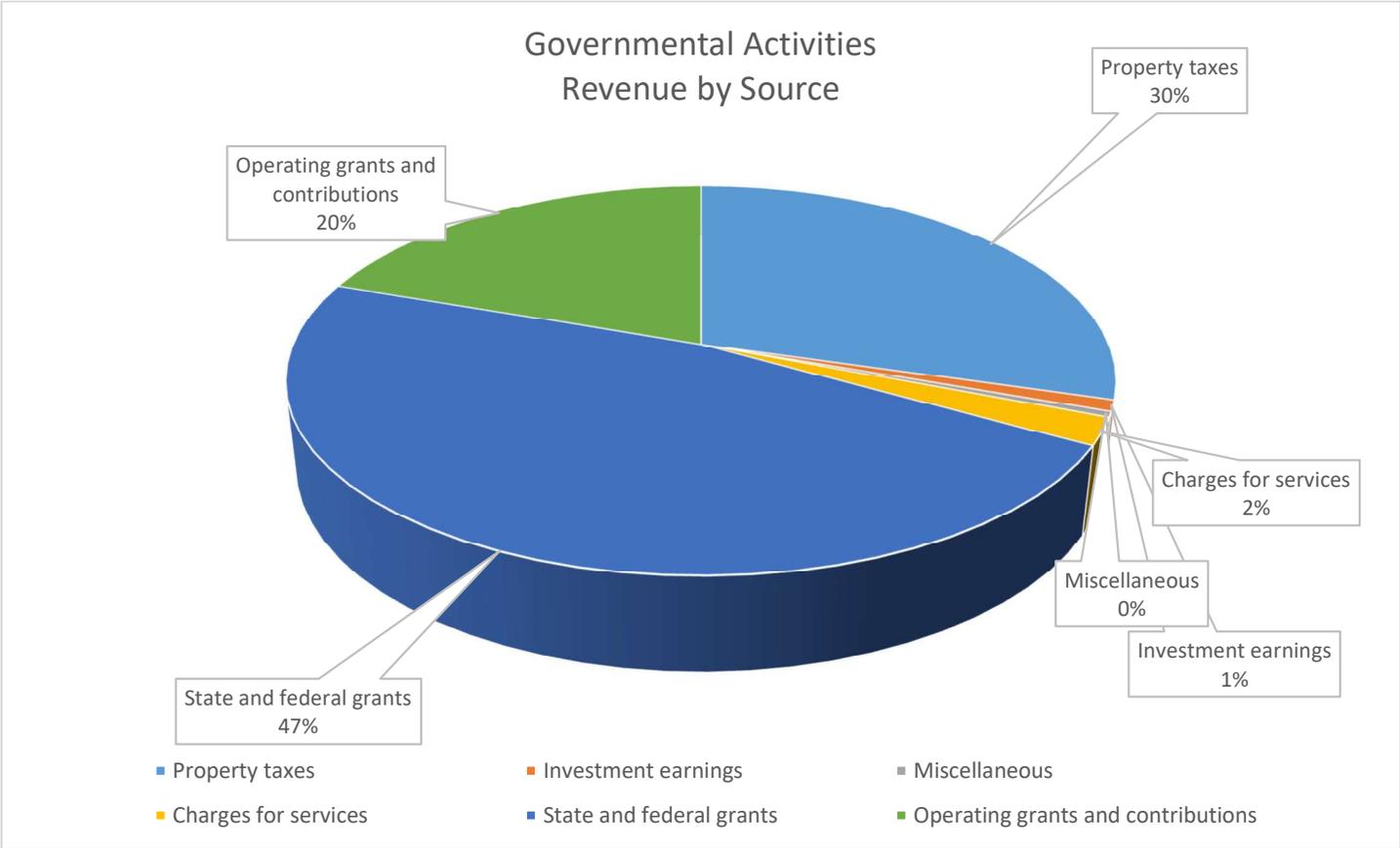
- Property tax revenue and operating grants and contributions increased by \$1.4 million. This is offset by the \$1.9 million increase in instruction expenses.

**Governmental Activities**

Funding for government-wide activities is by the specific program revenue or through general revenues such as property taxes and investment earnings. Revenues for the District’s governmental activities increased \$694 thousand while total expenses increased by \$3.4 million.

**Revenues**

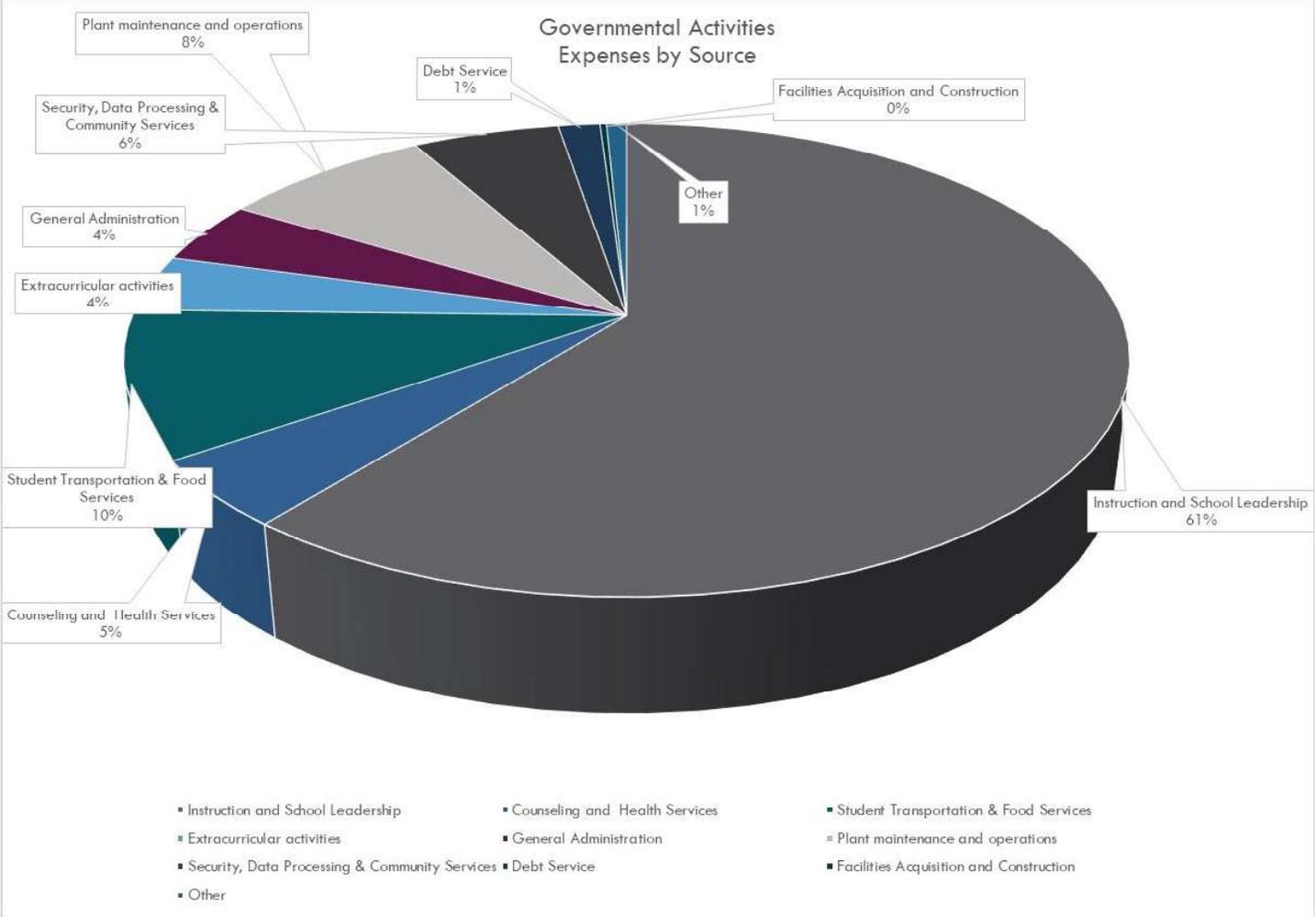
The District’s total revenues were \$32.1 million, representing an increase of \$694 thousand from the previous year. As seen below, approximately 30% of the District’s revenue comes from local property taxes, 47% from state and federal sources, 20% from operating grants and contributions; 1% from investment earnings; and 2% for charges and services.



**Expenses**

The District's total expenses were \$31.3 million, representing an increase of \$3.3 million from the previous year. The majority of this increase is due to an increase in instruction expense. The District's primary functional expenses are:

- Instruction and school leadership - \$18.3 million, or 61 percent of total expenses
- Student transportation and food services - \$3.1 million, or 10 percent
- Plant maintenance and operations - \$2.5 million, or 8 percent



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

In total, governmental activities increased the District's net position by \$764 thousand dollars over beginning net position of \$14.4 million. Key elements of this change are as follows:

**Kemp Independent School District's Net Position**

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
<b>Revenue:</b>						
Program revenues:						
Charges for services	\$ 727,329	2	\$ 757,673	2	\$ (30,344)	(4)
Operating grants and contributions	6,307,184	18	6,115,668	19	191,516	3
General revenues:						
Property taxes, levied for general purpose	7,345,428	21	6,367,700	20	977,728	15
Property taxes, levied for debt service	2,115,432	7	1,857,130	6	258,302	-
State Aid - Formula Grants	15,160,079	49	15,224,418	48	(64,339)	(0)
Grants and contributions not restricted to specific programs	-	-	530,053		(530,053)	-
Investment earnings	294,698	1	356,559	1.1	(61,861)	(17)
Miscellaneous	144,778	0	192,112	0.3	(47,334)	(25)
Total revenues	<u>32,094,928</u>	99	<u>31,401,313</u>	98	693,615	2
<b>Expenses:</b>						
Instruction	16,486,840	54	14,567,317	50	1,919,523	13
Instructional resources and media services	253,901	1	291,476	1	(37,575)	(13)
Curriculum and instructional staff development	289,461	1	256,126	1	33,335	13
Instructional leadership	178,612	1	158,349	1	20,263	13
School leadership	1,829,166	6	1,494,654	5	334,512	22
Guidance, counseling, and evaluation services	1,021,110	3	605,413	2	415,697	69
Health services	423,694	1	365,671	1	58,023	16
Student transportation	1,414,173	5	1,255,346	4	158,827	13
Food service	1,725,964	6	1,806,326	6	(80,362)	(4)
Extracurricular activities	1,223,725	4	1,144,065	4	79,660	7
General administration	1,359,235	4	1,358,690	5	545	0
Plant maintenance and operations	2,534,114	8	2,223,691	8	310,423	14
Security and monitoring services	1,187,177	4	1,185,098	4	2,079	0
Data processing services	581,067	2	512,126	2	68,941	13
Community services	358	0	397	0	(39)	-
Debt service -interest on long-term debt	502,707	2	528,054	2	(25,347)	(5)
Facilities acquisition and construction	77,773	0	65,884	0	11,889	18
Payments related to shared services arrangements	129,110		233,166			
Other intergovernmental charges	113,119	0	118,155	0	(5,036)	(4)
Total expenses	<u>31,331,306</u>	100	<u>28,170,004</u>	100	3,265,358	12
Change in net position	763,622		3,231,309		(2,571,743)	
Net position, beginning of year	<u>14,394,582</u>		<u>11,163,273</u>		<u>3,231,309</u>	
Net position - ending	<u>\$ 15,158,204</u>		<u>\$ 14,394,582</u>		<u>\$ 659,566</u>	

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Governmental Funds

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$12.1 million, a decrease of \$1.7 million over beginning fund balance of \$13.9 million. Approximately 67 percent of this total amount (\$8.1 million) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is non-spendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been 1) used to purchase inventories and prepaid items (\$209 thousand), 2) restricted to pay debt service (\$1.2 million), 3) restricted for grants (\$1.2 million), or 4) restricted for future capital projects (\$336 thousand), 5) committed for campus activities (\$203 thousand) 6) committed for construction (\$884 thousand). Commitments reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

**General Fund.** The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8.1 million, while total fund balance reached \$9.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31 percent of total General Fund expenditures, while total fund balance represents 35 percent of that same amount.

The fund balance of the District's General Fund decreased by \$2.1 million during the current fiscal year. Key factors are as follows:

- Revenues totaled \$24.2 million which is a 1 percent decrease from previous year. Total state program revenues decreased by \$9.8 thousand, and federal funds decreased by \$601 thousand, or 74%.
- Expenditures totaled \$26.2 million which is a 6 percent increase from previous year. This includes a \$2 million increase in instruction.

**Debt Service Fund.** The Debt Service Fund has a total fund balance of \$1.2 million, all of which is restricted for the payment of debt service. The net decrease in fund balance was \$25.7 thousand. Revenues totaled \$2.5 million which is an 6 percent increase from previous year.

**Local Capital Projects Fund.** The Local Capital Projects Fund has a total fund balance of \$335 thousand, all of which is restricted for capital acquisition and improvements.

### Budgetary Highlights

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

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

- ***Variances of original expenditure budget compared to amended budget.***  
The amended expenditure budget increased by \$2 million in total from the original budget.
- ***Variances of amended budget to actual expenditures.***  
Expenditures were \$780 thousand less than final budgeted amounts. This was primarily due to decreased expenditures in instruction and security and monitoring services.
- ***Variances of original revenue budget compared to actual revenue***  
Revenues were \$1.2 million less than final budgeted amounts. The amended budget was adopted with higher projections for Local, state and federal program revenue.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of 2025, the District had invested \$27 million in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase of \$349 thousand, or 1 percent over last year. Additional information on the District's capital assets can be found in Note 5 of this report.

**Kemp Independent School District's  
Capital Assets**

	Governmental Activities	
	2025	2024
Land	\$ 367,652	\$ 367,652
Construction in progress	671,012	3,446,054
Buildings and improvements	50,114,035	45,762,135
Furniture and equipment	3,995,171	3,756,249
Intangible asset - right to use asset	61,852	61,852
 Total at historical cost	 55,209,722	 53,393,942
Less accumulated depreciation and amortization	(28,207,731)	(26,741,196)
 Net capital assets	 \$ 27,001,991	 \$ 26,652,746

**Long-Term Debt**

At the end of 2025, the District had \$25.9 million in long-term liabilities which include general obligation bonds, a note payable, lease liabilities, compensated absences, net pension liability, and net OPEB liability. The District's long-term liabilities decreased by \$155 thousand. Additional information on the District's long-term debt can be found in Note 6 of this report.

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Long-term liabilities	\$ 13,484,115	52	\$ 15,699,919	60	\$ (2,215,804)	(14)
Net pension liability	7,316,635	28	7,036,580	27	280,055	4
Net OPEB liability	5,120,061	20	3,339,779	13	1,780,282	53
<b>Totals</b>	<b>\$ 25,920,811</b>	<b>100</b>	<b>\$ 26,076,278</b>	<b>100</b>	<b>\$ (155,467)</b>	

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's elected and appointed officials considered many factors when setting the 2025-2026 budget and tax rates. One of those factors is the local economy which includes an increase in population within district boundaries. We are seeing a continued increase in enrollment since many families are returning to the area. Unemployment has decreased from 4.7 in 2007 to where it now stands at approximately 4.2 percent for Kaufman County. We are above the State's unemployment rate of 4.1 percent and below the national rate of 4.3 percent. Unemployment rates have improved slightly since last year.

The average daily student attendance is a determining factor in the state of funding formula. Average daily attendance (ADA) for Kemp ISD is approximately 89.83% of student enrollment.

Year	Enrollment
2014-15	1,455
2015-16	1,498
2016-17	1,542
2017-18	1,620
2018-19	1,663
2019-20	1,619
2020-21	1,654
2021-22	1,692
2022-23	1,835
2023-24	1,967
2024-25	1,987

Our enrollment on the snapshot date in the fall of the 2024-2025 school year varied from the previous school year by 20 students. However, the final average daily attendance (ADA) decreased by 40 students from the previous year. The Legislature has reduced the public school state funding and because state funding is not sufficient for our needs, we continue to rely on the only other major sources of revenue generation, that being property taxes. Property values in Kemp ISD saw an increase for tax year 2025; therefore, the M&O and I&S tax rates were lowered to \$0.7087 and \$0.4648, respectively. The I&S Debt Service Fund maintains a fund balance which currently eliminates the need to transfer funds from the General Fund to the Debt Service Fund to cover the deficit. Management continues to analyze the enrollment and property value trends and will continue to seize every opportunity to cut costs while continuing to provide a quality education resulting in higher student achievement.

The District intends to follow current fiscal and budgetary policies and if the projections for 2025-2026 are realized, expects to continue seeing moderate increases in the current General Fund balance.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's business office at Kemp ISD, 905 S. Main Street, Kemp, Texas.

Kemp Independent School District

Statement of Net Position (Exhibit A-1)

June 30, 2025

Data Control Codes		1 Primary Governmental Activities
Assets		
1110	Cash and cash equivalents	\$ 1,785,696
1120	Investments - current	6,610,043
1220	Property taxes receivable (delinquent)	1,505,655
1230	Allowance for uncollectible taxes	(268,262)
1240	Due from other governments	5,511,205
1290	Other receivables	24,497
1300	Inventories at cost	33,122
1410	Prepaid expenses	176,037
Capital assets		
1510	Land	367,652
1520	Buildings, net	24,589,621
1530	Furniture and equipment, net	1,343,810
1550	Right-to-use assets, net of accumulated amortization	29,896
1580	Construction in progress	671,012
1000	Total assets	<u>42,379,984</u>
Deferred outflows of resources		
1705	Deferred outflows - pension	2,336,917
1706	Deferred outflows - OPEB	3,722,892
1700	Total deferred outflows of resources	<u>6,059,809</u>
Liabilities		
2110	Accounts payable	8,332
2140	Interest payable	122,787
2150	Payroll deductions and withholdings	153,226
2160	Accrued wages payable	1,876,880
2180	Due to other governments	5,983
2200	Accrued expenses	196,317
2300	Unearned revenue	33,133
Noncurrent liabilities		
2501	Due within one year	1,715,822
2502	Due in more than one year	11,768,293
2540	Net pension liability	7,316,635
2545	Net OPEB liability	5,120,061
2000	Total liabilities	<u>28,317,469</u>

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

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<u>Data Control Codes</u>		<u>1 Primary Governmental Activities</u>
	Deferred Inflows of Resources	
2605	Deferred inflows - pension	183,638
2606	Deferred inflows - OPEB	<u>4,780,482</u>
2600	Total deferred inflows of resources	<u>4,964,120</u>
	Net Position	
3200	Net investment in capital assets	14,338,050
3820	Restricted for grants	1,255,020
3850	Restricted for debt service	1,260,010
3900	Unrestricted	<u>(1,694,876)</u>
3000	Total net position	<u><u>\$ 15,158,204</u></u>

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

1

Data Control Codes	Functions/Programs	Expenses
	Primary government	
	Governmental activities	
11	Instruction	\$ 16,486,840
12	Instructional resources and media services	253,901
13	Curriculum and instructional staff development	289,461
21	Instructional leadership	178,612
23	School leadership	1,829,166
31	Guidance, counseling, and evaluation services	1,021,110
33	Health services	423,694
34	Student transportation	1,414,173
35	Food service	1,725,964
36	Extracurricular activities	1,223,725
41	General administration	1,359,235
51	Plant maintenance and operations	2,534,114
52	Security and monitoring services	1,187,177
53	Data processing services	581,067
61	Community services	358
72	Debt service	502,707
81	Facilities acquisition and construction	77,773
93	Payments related to shared services arrangement	129,110
99	Other intergovernmental charges	113,119
TG	Total governmental activities	<u>31,331,306</u>
TP	Total primary government	<u>\$ 31,331,306</u>

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

3	4 Program Revenues	5	Net (Expense) Revenue and Changes in Net Position
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 266,728	\$ 2,757,108	\$ -	\$ (13,463,004)
-	17,982	-	(235,919)
-	21,354	-	(268,107)
-	15,079	-	(163,533)
-	157,716	-	(1,671,450)
-	91,420	-	(929,690)
-	47,883	-	(375,811)
-	91,696	-	(1,322,477)
202,845	1,573,066	-	49,947
227,663	58,765	-	(937,297)
-	101,723	-	(1,257,512)
30,093	179,454	-	(2,324,567)
-	743,545	-	(443,632)
-	38,837	-	(542,230)
-	-	-	(358)
-	321,883	-	(180,824)
-	6,175	-	(71,598)
-	83,498	-	(45,612)
-	-	-	(113,119)
<u>727,329</u>	<u>6,307,184</u>	<u>-</u>	<u>(24,296,793)</u>
<u>\$ 727,329</u>	<u>\$ 6,307,184</u>	<u>\$ -</u>	<u>\$ (24,296,793)</u>

General revenues:

Taxes:

MT Property taxes, levied for general purposes	7,345,428
DT Property taxes, levied for debt services	2,115,432
SF State aid - Formula grants	15,160,079
IE Investment earnings	294,698
MI Miscellaneous	144,778
TR Total general revenues	<u>25,060,415</u>
CN Change in net position	763,622
NB Net position - beginning	<u>14,394,582</u>
NE Net position - ending	<u>\$ 15,158,204</u>

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

Data Control Codes	10 <u>General Fund</u>	50 <u>Debt Service Fund</u>	60 <u>Capital Projects Fund</u>
<b>Assets</b>			
1110	\$ -	\$ 941,942	\$ 36,624
1120	6,445,247	164,796	-
1220	1,163,339	342,316	-
1230	(206,562)	(61,700)	-
1240	5,362,309	-	-
1260	97,682	-	298,984
1290	24,497	-	-
1300	-	-	-
1410	176,037	-	-
1000	<u>13,062,549</u>	<u>1,387,354</u>	<u>335,608</u>
1000a	Total assets and deferred outflows of resources		
	<u>\$ 13,062,549</u>	<u>\$ 1,387,354</u>	<u>\$ 335,608</u>
<b>Liabilities</b>			
2110	\$ 8,332	\$ -	\$ -
2150	153,226	-	-
2160	1,685,759	-	-
2170	1,124,294	-	-
2180	-	4,557	-
2200	163,561	-	-
2300	-	-	-
2000	<u>3,135,172</u>	<u>4,557</u>	<u>-</u>
<b>Deferred inflows of resources</b>			
2600	758,285	223,006	-
	<u>758,285</u>	<u>223,006</u>	<u>-</u>
<b>Fund balances</b>			
3410	-	-	-
3430	176,037	-	-
3450	-	-	-
3470	-	-	335,608
3480	-	1,159,791	-
3510	884,000	-	-
3545	-	-	-
3600	8,109,055	-	-
3000	<u>9,169,092</u>	<u>1,159,791</u>	<u>335,608</u>
4000	Total liabilities, deferred inflows of resources, and fund balances		
	<u>\$ 13,062,549</u>	<u>\$ 1,387,354</u>	<u>\$ 335,608</u>

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

ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 807,130	\$ 1,785,696
-	6,610,043
-	1,505,655
-	(268,262)
148,896	5,511,205
825,310	1,221,976
-	24,497
33,122	33,122
-	176,037
<u>1,814,458</u>	<u>16,599,969</u>
 \$ 1,814,458	 \$ 16,599,969
 \$ -	 \$ 8,332
-	153,226
191,121	1,876,880
97,682	1,221,976
1,426	5,983
32,756	196,317
33,133	33,133
<u>356,118</u>	<u>3,495,847</u>
 -	 981,291
-	981,291
 33,122	 33,122
-	176,037
1,221,898	1,221,898
-	335,608
-	1,159,791
-	884,000
203,320	203,320
-	8,109,055
<u>1,458,340</u>	<u>12,122,831</u>
 \$ 1,814,458	 \$ 16,599,969

Kemp Independent School District

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

June 30, 2025

Total Fund Balances - Governmental Funds (Exhibit C-1)		\$ 12,122,831
Capital assets, net of accumulated depreciation, are not financial resources and therefore are not reported as assets in governmental funds.		27,001,991
Some liabilities, including bonds payable, leases, note payable, and compensated absences and are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	(10,889,990)	
Loan payable	(248,000)	
Unamortized premiums on bonds payable	(1,828,970)	
Accumulated accretion on capital appreciation bonds	(87,732)	
Compensated absences	(396,834)	
Lease liability	(32,589)	(13,484,115)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(122,787)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:		
Deferred resource inflow for property taxes		981,291
The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:		
Net pension liability	(7,316,635)	
Deferred outflows of resources - TRS pension	2,336,917	
Deferred inflows of resources - TRS pension	(183,638)	
Net OPEB liability	(5,120,061)	
Deferred outflows of resources - TRS-Care OPEB	3,722,892	
Deferred inflows of resources - TRS-Care OPEB	(4,780,482)	(11,341,007)
Total Net Position - Governmental Activities (Exhibit A-1)		<u>\$ 15,158,204</u>

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

Data Control Codes	10 General Fund	50 Debt Service Fund
<b>Revenues</b>		
5700 Local and intermediate revenues	\$ 7,625,991	\$ 2,142,071
5800 State program revenues	16,371,692	321,883
5900 Federal program revenues	213,776	-
5020 Total revenues	<u>24,211,459</u>	<u>2,463,954</u>
<b>Expenditures</b>		
<b>Current</b>		
0011 Instruction	13,332,334	-
0012 Instructional resources and media services	197,370	-
0013 Curriculum and instructional staff development	278,632	-
0021 Instructional leadership	170,627	-
0023 School leadership	1,711,315	-
0031 Guidance, counseling, and evaluation services	944,379	-
0033 Health services	388,142	-
0034 Student transportation	1,180,632	-
0035 Food service	56,260	-
0036 Extracurricular activities	967,583	-
0041 General administration	1,295,745	-
0051 Plant maintenance and operations	2,580,737	-
0052 Security and monitoring services	581,229	-
0053 Data processing services	559,088	-
0071 Debt service	283,032	2,489,685
<b>Capital outlay</b>		
0081 Facilities acquisition and construction	1,586,800	-
<b>Intergovernmental</b>		
0093 Payments related to shared service arrangements	-	-
0099 Other intergovernmental charges	113,119	-
6030 Total expenditures	<u>26,227,024</u>	<u>2,489,685</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>(2,015,565)</u>	<u>(25,731)</u>
<b>Other financing sources (uses)</b>		
7915 Transfers in	-	-
8911 Transfers out	(45,612)	-
7080 Total other financing sources (uses)	<u>(45,612)</u>	<u>-</u>
1200 Net change in fund balances	(2,061,177)	(25,731)
0100 Fund balances, beginning	<u>11,230,269</u>	<u>1,185,522</u>
3000 Fund balances, ending	<u>\$ 9,169,092</u>	<u>\$ 1,159,791</u>

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

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ -	\$ 377,088	\$ 10,145,150
-	844,002	17,537,577
-	3,174,116	3,387,892
-	4,395,206	31,070,619
-	1,629,047	14,961,381
-	1,149	198,519
-	-	278,632
-	-	170,627
-	-	1,711,315
-	16,057	960,436
-	763	388,905
-	-	1,180,632
-	1,460,679	1,516,939
-	115,716	1,083,299
-	-	1,295,745
-	48,712	2,629,449
-	688,627	1,269,856
-	-	559,088
-	-	2,772,717
-	-	1,586,800
-	129,110	129,110
-	-	113,119
-	4,089,860	32,806,569
-	305,346	(1,735,950)
-	45,612	45,612
-	-	(45,612)
-	45,612	-
-	350,958	(1,735,950)
335,608	1,107,382	13,858,781
<u>\$ 335,608</u>	<u>\$ 1,458,340</u>	<u>\$ 12,122,831</u>

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

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Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-3)	\$ (1,735,950)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2025 capital outlays of \$1,900,935, recognition of deferred charge on refunding of \$159,797, bond principal payments of \$1,410,000, a bond defeasance of \$665,000, lease principal payments of \$11,958, loan principal payments of \$232,000, and accretion on capital appreciation bonds of \$26,011 is to increase net position.	4,136,930
2025 depreciation expense of \$1,639,251 increases accumulated depreciation. 2025 amortization of right to use lease assets of \$12,370 increases accumulated amortization. The net effect of the current year's activity is to decrease net position.	(1,654,535)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable tax revenue of \$981,291 as revenue and removing the prior year's tax collection of \$712,552.	268,739
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$36,912. The net effect is to increase net position.	36,912
The increase in compensated absences payable is an expenditure in the governmental funds when paid, but the payment for these is not an expense in the statement of activities. This represents the net increase to the compensated absences payable and reduces net position.	(177,091)
Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	99,948
Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$59,889. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$630,454. The net effect is a decrease in net position.	(570,565)
Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$11,108. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$348,126. The net effect is an increase in net position.	359,234
Change in Net Position for Governmental Activities (Exhibit B-1)	\$ 763,622

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

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<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>865 Custodial Fund</u>
	Assets		
1110	Cash and cash equivalents	<u>\$ 3,729</u>	<u>\$ 92,511</u>
1000	Total assets	<u>3,729</u>	<u>92,511</u>
	Liabilities		
2190	Due to student groups	<u>-</u>	<u>784</u>
2000	Total liabilities	<u>-</u>	<u>784</u>
	Net Position		
3800	Restricted	<u>3,729</u>	<u>91,727</u>
	Total net position	<u><u>\$ 3,729</u></u>	<u><u>\$ 91,727</u></u>

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

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	<u>Private Purpose Trust Funds</u>	<u>865 Custodial Fund</u>
Additions		
Donations	<u>\$ -</u>	<u>\$ 156,646</u>
Total contributions	<u>-</u>	<u>156,646</u>
Total additions	<u>-</u>	<u>156,646</u>
Deductions		
Supplies and materials	<u>-</u>	<u>144,383</u>
Total deductions	<u>-</u>	<u>144,383</u>
Change in net position	-	12,263
Net position, beginning	<u>3,729</u>	<u>79,464</u>
Net position, ending	<u><u>\$ 3,729</u></u>	<u><u>\$ 91,727</u></u>

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

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Kemp Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

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

**Government-Wide and Fund Financial Statements**

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

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

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

Additionally, the District reports the following nonmajor fund types:

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

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

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

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

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

### **Deposits and Investments**

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

### **Receivables and Payables**

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

### **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements and in the proprietary fund financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Assets	Years
Buildings and improvements	40
Furniture and equipment	10
Right-to-use lease assets	2-5

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

**Inventory**

The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and revenue when received. When requisitioned, inventory is decreased, and expenditures are charged for an equal amount.

**Prepaid Items**

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

**Compensated Absences**

It is the District’s policy to allow each employee to earn five paid local leave days per school year in accordance with administrative regulations. Local leave shall accumulate to a maximum of 30 leave days. Payment for accumulated leave upon retirement, to a maximum of 30 days, is set at a rate established by the Board and employees must meet certain provisions also established by District policy.

**Long-Term Liabilities**

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

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

**Deferred Outflows/Inflows of Resources**

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes, deferred gains on refunded debt, and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 9 and its OPEB liability as described in Note 10. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has deferred outflows of resources for deferred charges on refunded debt, its proportionate share of TRS's deferred outflow related to pensions as described in Note 9, and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 10.

**Property Tax**

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the June 30, 2025 fiscal year was based, was \$962,694,397. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended June 30, 2025 were 92.34% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2025, property taxes receivable, net of estimated uncollectible taxes, totaled \$1,237,393.

The tax rate to finance general governmental services was \$0.75490 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.21950 per \$100 for the year ended June 30, 2025.

**Net Position**

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

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

Net carrying value of capital assets	\$ 27,001,991
Less:	
Outstanding principal of capital debt and other capital borrowings	(11,170,579)
Unamortized balance of original issue premiums	(1,828,970)
Plus:	
Unspent bond proceeds	<u>335,608</u>
Net investment in capital assets	<u>\$ 14,338,050</u>

Restricted for Grants is the component of net position that reports the difference between assets and liabilities of the Federal and State special revenue programs that consists of assets with constraints placed on their use by the Department of Education, Health and Human Services, Defense, Agriculture or TEA.

Restricted for Debt Service is the component of net position that reports the difference between assets and liabilities of the Debt Service Fund, net of accrued interest, at August 31, 2025, that consists of assets with constraints placed on their use by the bond covenants.

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

**Fund Balance**

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

*Nonspendable* fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. At June 30, 2025, the District had nonspendable fund balance for inventories and prepaid items of \$33,122 and \$176,037, respectively.

*Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At June 30, 2025, the District had restricted fund balance for grant funding of \$1,221,898, \$335,608 restricted for capital acquisitions and contractual obligations, and \$1,159,791 for debt service.

*Committed* fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At June 30, 2025, the District had committed \$203,320 for campus activities, and \$884,000 committed for building renovations.

*Assigned* fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At June 30, 2025, the District had \$0 assigned fund balance.

*Unassigned* fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

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

**Pensions**

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

**OPEB**

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

**Use of Estimates**

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

**Adoption of New Accounting Standards**

As of July 1, 2024, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. There was not a significant effect on the District's financial statements as a result of implementation of this standard.

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

**New Accounting Pronouncements**

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

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

**Note 2 - Stewardship, Compliance and Accountability****Budgetary Information**

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

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

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

**Note 3 - Fair Value Measurements**

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

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

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

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

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

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

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

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

**Note 4 - Detailed Notes on All Funds****Deposits and Investments**

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

At June 30, 2025, the bank balance of \$2,063,102 was on deposit with the contracted depository bank. District funds are insured up to \$250,000 for the combined amount of all time and savings accounts, and up to an additional \$250,000 for the combined total of all Demand Deposit Accounts (DDA's). Interest-bearing accounts were collateralized with a letter of credit of \$12,000,000 at June 30, 2025, held by Harmony Bank. Because Harmony Bank holds the pledged collateral on behalf of the District, the deposits were deemed collateralized under Texas law. All campus activity funds were centralized and were on deposit with the contracted depository.

**Investments**

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

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies, and instrumentalities,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less,
- Fully collateralized repurchase agreements,
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an "A", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 365 days or fewer from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit,
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above,
- Bonds issued, assumed or guaranteed by the State of Israel, and Secured corporate bonds rated not lower than "AA—" or the equivalent.

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

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

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 years	Credit Rating
Cash	\$ 1,881,936	22.2%	\$ 1,881,936	22.2%	\$ 1,881,936	\$ -	N/A
Certificate of Deposit	1,650,454	19.4%	1,650,454	19.4%	1,650,454	-	N/A
Money Market	3,084,850	29.2%	3,084,850	29.2%	3,084,850	-	N/A
Investment pools:							
TexPool	434,612	5%	434,612	5%	434,612	-	AAAm
Texas CLASS	414,627	5%	414,627	5%	414,627	-	AAAm
First Public / Lone Sta	<u>1,025,500</u>	<u>12%</u>	<u>1,025,500</u>	<u>12%</u>	<u>1,025,500</u>	<u>-</u>	<u>AAAm</u>
Total investment pools	<u>1,874,739</u>	<u>31%</u>	<u>1,874,739</u>	<u>31%</u>	<u>1,874,739</u>	<u>-</u>	
Total cash and investments	<u>\$ 8,491,979</u>	<u>100%</u>	<u>\$ 8,491,979</u>	<u>100%</u>	<u>\$ 8,491,979</u>	<u>\$ -</u>	

Investment Pools are measured at amortized cost or net asset value, i.e. fair value. As such, these investments are not required to be reported in the fair value hierarchy.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares. Audited financial statements of the pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor’s Office and by the Internal Auditor of the Comptroller’s Office.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. Texas CLASS carries a letter of credit that ensures the integrity of the fund, making it the only investment pool in Texas backed by a letter of credit. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Texas CLASS is the same as the value of Texas CLASS Shares.

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

### **Interest Rate Risk**

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

### **Credit Risk**

The District's investments in Local Government Investment Pools (LGIP's) include: TexPool, Texas CLASS and Lone Star. These are public funds investment pools operating in full compliance with the Public Funds Investment Act. These investment pools are rated AAAM by Standard and Poor's.

### **Concentration of Credit Risk**

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

### **Custodial Credit Risk – Deposits**

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

### **Foreign Currency Risk**

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

**Due from Other Governments**

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

Governmental Activities	State Grants/ Entitlements	Federal Grants	Total
General Fund	\$ 5,362,309	\$ -	\$ 5,362,309
Debt Service Fund	-	-	-
Nonmajor Governmental Funds	41,837	107,059	148,896
	<u>\$ 5,404,146</u>	<u>\$ 107,059</u>	<u>\$ 5,511,205</u>

**Interfund Receivables/Payable**

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year.

Interfund balances at June 30, 2025, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

Due From/To Other Funds	Interfund Receivables	Interfund Payables
General Fund	\$ 97,682	\$ 1,124,294
Capital Projects Fund	298,984	-
Nonmajor Governmental Funds	825,310	97,682
Totals	<u>\$ 1,221,976</u>	<u>\$ 1,221,976</u>

Interfund transfers during the year ended June 30, 2025, consisted of the following:

Transfer Out	Transfers In	Amount
General Fund	Nonmajor governmental funds	\$ 45,612
Total		<u>\$ 45,612</u>

The interfund transfer between the General Fund and the nonmajor governmental funds was used to cover program costs of special revenue funds.

**Note 5 - Capital Asset Activity**

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

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 367,652	\$ -	\$ -	\$ 367,652
Construction in progress	3,446,054	1,438,458	(4,213,500)	671,012
Total capital assets, not being depreciated	3,813,706	1,438,458	(4,213,500)	1,038,664
Capital assets, being depreciated				
Buildings and improvements	45,762,135	4,351,900	-	50,114,035
Furniture and equipment	3,756,249	426,922	(188,000)	3,995,171
Total capital assets, being depreciated	49,518,384	4,778,822	(188,000)	54,109,206
Less accumulated depreciation for				
Buildings and improvements	(24,131,299)	(1,393,115)	-	(25,524,414)
Furniture and equipment	(2,590,311)	(249,050)	188,000	(2,651,361)
Total accumulated depreciation	(26,721,610)	(1,642,165)	188,000	(28,175,775)
Total capital assets, being depreciated, net	22,796,774	3,136,657	-	25,933,431
Right-to-use lease assets being amortized				
Equipment	61,852	-	-	61,852
Total right-to-use lease assets being amortized	61,852	-	-	61,852
Less accumulated amortization for				
Equipment	(19,586)	(12,370)	-	(31,956)
Total accumulated amortization, lease asse	(19,586)	(12,370)	-	(31,956)
Net right-to-use lease assets	42,266	(12,370)	-	29,896
Governmental activities capital assets, net	\$ 26,652,746	\$ 4,562,745	\$ (4,213,500)	\$ 27,001,991

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

Governmental Activities		
11	Instruction	\$ 794,341
12	Instructional resources and media services	48,335
13	Curriculum and instructional staff development	357
21	Instructional leadership	852
23	School leadership	44,301
31	Guidance, counseling, and evaluation services	19,630
33	Health services	19,630
34	Student transportation	323,155
35	Food service	228,377
36	Extracurricular activities	113,794
41	General administration	15,291
51	Plant maintenance and operations	28,770
52	Security and monitoring services	621
53	Data processing services	4,711
		<u>4,711</u>
	Total depreciation expense-governmental activities	<u>\$ 1,642,165</u>

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

Governmental Activities		
11	Instruction	\$ 12,370
	Total amortization expense-governmental activities	<u>\$ 12,370</u>

### Construction Commitments

Estimated costs to complete construction in progress as of June 30, 2025 are \$997,803.

### Note 6 - Long-Term Debt

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

During the year ended June 30, 2025, the District established a defeasance escrow to defease the District's outstanding Unlimited Tax School Refunding Bonds, Series 2015, of \$665,000, prior to its scheduled maturities in fiscal year 2033. The District deposited directly with a paying agent for the defeased bonds funds in the amount of \$692,475, sufficient to provide the final payment and redemption of the defeased bonds. The defeased bonds are no longer regarded as being outstanding, except for the purpose of being paid from funds on deposit in the escrow fund. The payment to the escrow was recorded as debt service paid from the Debt Service Fund. As of June 30, 2025, the remaining outstanding principal of the defeased bonds was \$905,000. The defeasance resulted in a cash flow savings of approximately \$175,600 for the District.

**Accretion on Capital Appreciation Bonds**

A portion of the bonds sold in the Unlimited Tax Refunding Bond Series 2022 are capital appreciation bonds. The obligations have par values of \$189,990 and maturity values of \$1,555,000. The interest of these obligations will be paid upon maturity in the fiscal year ending June 30, 2027. The accreted value of these bonds at June 30, 2025, is \$87,732.

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

Bond Issuances	Amounts Original Issued	Interest Rate Payable	Maturity Date
Unlimited Tax Refunding Bond, Series 2015	\$ 8,850,000	2.00% to 5.00%	February 15, 2033
Unlimited Tax Refunding Bond, Series 2022	8,069,990	1.781% to 5.00%	February 15, 2032
<b>Loan Payable</b>			
Maintenance Tax Note, Series 2011 - QSCB	2,448,000	6.75%	February 15, 2026
<b>Leases</b>			
Copiers	61,852	7.00%	December 2027

**Loan Payable**

A Maintenance Tax Note, Series 2011 (“Qualified School Construction Bonds”), loan of \$2,448,000 was issued on April 12, 2011, for the purpose of providing funds to pay for the costs of the District’s maintenance improvements as authorized by Texas Education Code section 45.106, as amended. The loan is to be repaid in annual payments beginning February 15, 2012. The interest rate is 6.75% which includes a Federal Tax Credit rate of 5.45% resulting in a net tax rate of 1.30% to the District.

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

Bond Series Name	Beginning Balance	Debt Issued	Principal Retired	Ending Balance	Due Within One Year
Unlimited Tax Refunding Bond, Series 2015	\$ 5,105,000	\$ -	\$ (1,935,000)	\$ 3,170,000	\$ 1,305,000
Unlimited Tax Refunding Bond, Series 2022	7,859,990	-	(140,000)	7,719,990	150,000
Total bonds payable	12,964,990	-	(2,075,000)	10,889,990	1,455,000
Total loans payable	480,000	-	(232,000)	248,000	248,000
Total leases payable	44,547	-	(11,958)	32,589	12,822
Total general long-term debt	<u>\$ 13,489,537</u>	<u>\$ -</u>	<u>\$ (2,318,958)</u>	<u>\$ 11,170,579</u>	<u>\$ 1,715,822</u>

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

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 1,455,000	\$ 350,848	\$ 1,805,848
2027	189,990	1,669,208	1,859,198
2028	1,575,000	304,198	1,879,198
2029	1,660,000	225,448	1,885,448
2030	1,690,000	195,883	1,885,883
2031-2033	4,320,000	366,877	4,686,877
Totals	<u>\$ 10,889,990</u>	<u>\$ 3,112,462</u>	<u>\$ 14,002,452</u>

Debt service requirements for the loan payable is as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 248,000	\$ 16,740	\$ 264,740
Totals	<u>\$ 248,000</u>	<u>\$ 16,740</u>	<u>\$ 264,740</u>

Payment requirements for the District's leases are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 12,822	\$ 1,875	\$ 14,697
2027	13,749	948	14,697
2028	6,018	106	6,124
Totals	<u>\$ 32,589</u>	<u>\$ 2,929</u>	<u>\$ 35,518</u>

Kemp Independent School District

Notes to Financial Statements

June 30, 2025

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 12,964,990	\$ -	\$ (2,075,000)	\$ 10,889,990	\$ 1,455,000
Premium capital appreciation bonds	1,234,048	-	-	1,234,048	-
Premium on bond payable	694,870	-	(99,948)	594,922	-
Accumulated accretion on capital appreciation bonds	61,721	26,011	-	87,732	-
<b>Total bonds payable, net</b>	<b>14,955,629</b>	<b>26,011</b>	<b>(2,174,948)</b>	<b>12,806,692</b>	<b>1,455,000</b>
Loan payable	480,000	-	(232,000)	248,000	248,000
Lease liabilities	44,547	-	(11,958)	32,589	12,822
Compensated absences	219,743	177,091	-	396,834	-
<b>Governmental activities long-term liabilities</b>	<b>\$ 15,699,919</b>	<b>\$ 203,102</b>	<b>\$ (2,418,906)</b>	<b>\$ 13,484,115</b>	<b>\$ 1,715,822</b>

The lease liability is liquidated from the General Fund.

**Note 7 - Leases**

The District entered an agreement to lease copiers for the District beginning 2022. Under the terms of the lease, the District pays a monthly base fee of \$1,225. The lease terminates in December 2027.

At June 30, 2025, the District has recognized a right to use asset, net of accumulated amortization, of \$29,896 and a lease liability of \$32,589 related to the agreement. During the fiscal year, the District recorded \$12,370 in amortization expense and \$2,739 in interest expense for the right to use copy machines. The District used a discount rate of 7% on the copier lease. The discount rates were based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 12,822	\$ 1,875	\$ 14,697
2027	13,749	948	14,697
2028	6,018	106	6,124
Totals	<u>\$ 32,589</u>	<u>\$ 2,929</u>	<u>\$ 35,518</u>

**Note 8 - Contingencies**

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

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

**Note 9 - Defined Benefit Pension Plan**

**Defined Benefit Pension Plan**

**Plan Description**

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

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

**Pension Plan Fiduciary Net Position**

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

**Benefits Provided**

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

**One-Time Stipends**

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

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

**Cost-of-Living Adjustment**

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

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

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

**Contribution**

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

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

	Contribution Rates	
	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
	2024	2025
Member Contributions	\$ 1,308,860	\$ 1,455,562
NECE On-Behalf Contributions	930,061	1,051,667
Employer Contributions	638,704	718,386

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- All public schools, charter schools, and regional educational service centers must contribute 1.8% of the member’s salary beginning in fiscal year 2023, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the TRS the employer shall pay both the member contribution and State contribution as an employment after retirement surcharge.

**Actuarial Assumptions**

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

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2022	3.87%
Last year ending August 31 in Projection	
Period (100 years)	2123
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95%
Ad hoc post-employment benefit changes	None

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

**Discount Rate**

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

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

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

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

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

<sup>1</sup>Target Allocation based on the FY2024 policy manual.

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

<sup>3</sup>The volatility drag results from the conversion between arithmetic and geometric mean returns.

<sup>4</sup>Absolute Return includes Credit Sensitive instruments.

**Discount Rate Sensitivity Analysis**

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase Discount Rate (8.00%)
Total TRS net pension liability	\$ 97,566,906,778	\$ 61,084,175,799	\$ 30,855,639,673
District's proportionate share of the net pension liability	\$ 11,686,520	\$ 7,316,635	\$ 3,695,875

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

At June 30, 2025, the District reported a liability of \$7,316,635 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	\$ 7,316,635
State's proportionate share that is associated with the District	9,834,875
<b>Total</b>	<b>\$ 17,151,510</b>

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.

On August 31, 2024, the employer's proportion of the collective net pension liability was 0.011977955% which was an increase of .001734042% from its proportion measured as of August 31, 2023.

**Changes since the Prior Actuarial Valuation**

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

The 2023 Texas Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.355 billion for COLAs.

This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

For the year ended June 30, 2025, the District recognized pension expense of \$1,175,432 and revenue of \$907,322 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between expected and actuarial economic experience	\$ 403,283	\$ 57,125
Changes in actuarial assumptions	377,774	50,647
Difference between projected and actual investment earnings	44,475	-
Changes in proportion and differences between District contributions and the proportionate share of contributions	895,645	75,866
Contributions paid to TRS subsequent to the measurement date	<u>615,740</u>	<u>-</u>
Total	<u>\$ 2,336,917</u>	<u>\$ 183,638</u>

\$615,740 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2026.

The net amount of employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2026	\$ 249,420
2027	955,891
2028	242,413
2029	(38,213)
2030	128,028
Thereafter	-
Totals	<u>\$ 1,537,539</u>

## Note 10 - Postemployment Health Benefits

### Plan Description

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

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

### OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/learningresources/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 benefit changes; including automatic COLAs.

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

TRS-Care Monthly Premium Rates

	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

**Contributions**

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

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

Contributions Rates

	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
	2024	2025
Employer Contributions	\$ 150,910	\$ 165,589
Member Contributions	103,594	114,674
NECE On-behalf Contributions	179,897	208,205

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

**Actuarial Assumptions**

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

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

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

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

**Additional Actuarial Methods and Assumptions**

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

**Discount Rate**

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

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

**Discount Rate Sensitivity Analysis**

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

	<u>1% Decrease in Discount Rate (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase Discount Rate (4.87%)</u>
Total TRS net OPEB liability	\$ 36,059,038,653	\$ 30,351,532,252	\$ 25,739,781,222
District's proportionate share of the Net OPEB liability	\$ 6,082,872	\$ 5,120,061	\$ 4,342,095

**Healthcare Cost Trend Rate Sensitivity Analysis**

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Current Single Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Total TRS net OPEB liability	\$ 24,716,816,909	\$ 30,351,532,252	\$ 37,694,128,071
District's proportionate share of the Net OPEB liability	\$ 4,169,530	\$ 5,120,061	\$ 6,358,698

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

At June 30, 2025, the District reported a liability of \$5,120,061 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 was as follows:

District's Proportionate share of the collective Net OPEB liability	\$ 5,120,061
State's proportionate share that is associated with the District	<u>6,415,367</u>
Total	<u>\$ 11,535,428</u>

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

At June 30, 2025, the District's proportion of the collective Net OPEB Liability was 0.0168692% compared to 0.0150860% as of June 30, 2024.

### Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 4.13 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 ending June 30, 2025, the District recognized OPEB benefit of \$833,879 and revenue of \$191,996 for support provided by the State.

Kemp Independent School District

Notes to Financial Statements

June 30, 2025

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actuarial economic experience	\$ 981,344	\$ 2,555,188
Changes in actuarial assumptions	655,307	1,670,617
Difference between projected and actual investment earnings	-	14,338
Changes in proportion and differences between District contributions and the proportionate share of contributions	1,945,317	540,339
Contributions paid to TRS subsequent to the measurement date	<u>140,924</u>	<u>-</u>
Totals	<u>\$ 3,722,892</u>	<u>\$ 4,780,482</u>

\$140,924 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended June 30, 2026.

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

<u>Year Ended June 30,</u>	<u>OPEB Expense Amount</u>
2026	\$ (328,162)
2027	(96,268)
2028	(364,354)
2029	(403,632)
2030	(251,292)
Thereafter	<u>245,194</u>
Totals	<u>\$ (1,198,514)</u>

**Medicare Part D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from federal governments to offset certain prescriptions drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$8,438, \$6,823, and \$7,244 for the years ended June 30, 2025, 2024 and 2023, respectively.

**Note 11 - Unavailable Revenue**

Unavailable revenue at year-end in the fund financial statements consisted of the following:

	General Fund	Debt Service	Total
Unavailable tax collections	\$ 758,285	\$ 223,006	\$ 981,291
Total	<u>\$ 758,285</u>	<u>\$ 223,006</u>	<u>\$ 981,291</u>

**Note 12 - Revenues from Local and Intermediate Sources**

	General	Debt Service	Nonmajor Governmental	Total
Property taxes	\$ 7,136,872	\$ 2,055,249	\$ -	\$ 9,192,121
Penalties, interest, and other tax-related	92,892	51,142	-	144,034
Investment income	259,018	35,680	-	294,698
Food sales	-	-	202,845	202,845
Co-curricular/extra- curricular student activities	54,164	-	173,499	227,663
Tuition and fees	36,950	-	-	36,950
Other	46,095	-	744	46,839
Total	<u>\$ 7,625,991</u>	<u>\$ 2,142,071</u>	<u>\$ 377,088</u>	<u>\$ 10,145,150</u>

**Note 13 - General Fund Federal Source Revenues**

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

Program or Service	Federal Financial Assistance Listing	Amount
School of Health and Related Services	N/A	\$ 187,425
QSCB Bond Interest Reimbursement	N/A	<u>26,351</u>
Total		<u>\$ 213,776</u>

**Note 14 - Risk Management**

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

**Health Care Coverage**

For the year ended June 30, 2025, all employees of the District were offered health care coverage under the TRS ActiveCare insurance plan (the Plan), which is a statewide health coverage program for public education employees established by the 77<sup>th</sup> Texas Legislature. The District contributed \$325 per month per enrolled employee to the Plan, and employees, at their option, authorized payroll withholdings to pay the additional cost of premiums for themselves and dependents.

**Workers' Compensation Insurance**

The District participates in a modified self-funded workers' compensation insurance pool with other districts which are located in the state of Texas. The District's contributions to the pool are based on the loss experience of the District and other districts in the pool. Claims Administrative Services, Inc. (CAS) is the third-party administrator of the pool. The District's annual guaranteed cost is \$70,450. The District has accrued \$5,008 at June 30, 2025 for workers' compensation claims payable.

**Tax Abatements**

In compliance with GASB Statement No. 77, the District did not have any outstanding tax abatements for the year ended June 30, 2025.

**Note 15 - Shared Service Arrangement**

The District is the fiscal agent for a Shared Services Arrangement (SSA) which provides special education services to autistic students of member districts listed below. All services are provided by the member districts. Grant funds are provided directly to the fiscal agent, who is responsible for the distribution of funds. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Como-Pickton CISD	\$ 44,552
Winnsboro ISD	<u>84,558</u>
Total	<u>\$ 129,110</u>

**Note 16 - Subsequent Events**

On August 28, 2025, the District issued \$24,885,000 in Unlimited Tax School Building and Refunding Bonds, Series 2025. The bond proceeds will be used to renovate and equip school buildings of the District.

Required Supplementary Information  
June 30, 2025

## Kemp Independent School District

Kemp Independent School District  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund  
(Exhibit G-1)  
Year Ended June 30, 2025

Data Control Codes		Budgeted Amounts	
		Original	Final
Revenues			
5700	Local and intermediate revenues	\$ 8,015,131	\$ 8,015,131
5800	State program revenues	16,672,417	16,672,417
5900	Federal program revenues	335,000	686,533
5020	Total revenues	25,022,548	25,374,081
Expenditures			
Current			
0011	Instruction	13,485,500	13,604,500
0012	Instructional resources and media services	131,342	209,342
0013	Curriculum and instructional staff development	305,238	305,238
0021	Instructional leadership	170,624	185,624
0023	School leadership	1,618,485	1,703,845
0031	Guidance, counseling, and evaluation services	978,460	957,460
0033	Health services	405,347	410,347
0034	Student transportation	1,248,731	1,198,731
0035	Food service	50,151	65,151
0036	Extracurricular activities	994,478	974,278
0041	General administration	1,349,474	1,288,474
0051	Plant maintenance and operations	2,556,351	2,556,351
0052	Security and monitoring services	644,558	634,558
0053	Data processing services	649,109	564,109
0071	Debt service	284,900	289,900
Capital outlay			
0081	Facilities acquisition and construction	-	1,933,968
Intergovernmental			
0099	Other intergovernmental charges	150,000	125,000
6030	Total expenditures	25,022,748	27,006,876
1100	Excess of revenues over expenditures	(200)	(1,632,796)
Other financing sources (uses)			
8911	Transfers out	-	-
7080	Total other financing sources (uses)	-	-
1200	Net change in fund balance	(200)	(1,632,796)
0100	Fund balance, beginning	11,230,269	11,230,269
3000	Fund balance, ending	\$ 11,230,069	\$ 9,597,473

Kemp Independent School District  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund  
(Exhibit G-1)  
Year Ended June 30, 2025

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<u>Actual</u>	Variance with Final Budget Positive (Negative)
\$ 7,625,991	\$ (389,140)
16,371,692	(300,725)
<u>213,776</u>	<u>(472,757)</u>
<u>24,211,459</u>	<u>(1,162,622)</u>
13,332,334	272,166
197,370	11,972
278,632	26,606
170,627	14,997
1,711,315	(7,470)
944,379	13,081
388,142	22,205
1,180,632	18,099
56,260	8,891
967,583	6,695
1,295,745	(7,271)
2,580,737	(24,386)
581,229	53,329
559,088	5,021
283,032	6,868
1,586,800	347,168
<u>113,119</u>	<u>11,881</u>
<u>26,227,024</u>	<u>779,852</u>
<u>(2,015,565)</u>	<u>(382,769)</u>
<u>(45,612)</u>	<u>(45,612)</u>
<u>(45,612)</u>	<u>(45,612)</u>
(2,061,177)	(428,381)
<u>11,230,269</u>	<u>-</u>
<u>\$ 9,169,092</u>	<u>\$ (428,381)</u>

**Kemp Independent School District**  
**Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas (Exhibit G-2)**  
**Year Ended June 30, 2025**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
District's proportion of the net pension liability	0.00011978%	0.01024391%	0.01044290%	0.0998850%	0.0100894%	0.0097037%	0.0086678%	0.0080615%	0.0076405%	0.0074563%
District's proportionate share of the net pension liability	\$ 7,316,635	\$ 7,036,580	\$ 6,199,703	\$ 2,543,729	\$ 5,403,698	\$ 5,044,046	\$ 4,770,963	\$ 2,577,634	\$ 2,887,219	\$ 2,635,703
State's proportionate share of the net pension liability associated with the District	9,834,875	10,998,888	9,449,029	4,020,453	8,318,079	7,179,528	8,092,935	4,467,647	5,268,150	4,873,767
<b>Totals</b>	<b>\$ 17,151,510</b>	<b>\$ 18,035,468</b>	<b>\$ 15,648,732</b>	<b>\$ 6,564,182</b>	<b>\$ 13,721,777</b>	<b>\$ 12,223,574</b>	<b>\$ 12,863,898</b>	<b>\$ 7,045,281</b>	<b>\$ 8,155,369</b>	<b>\$ 7,509,470</b>
District's covered payroll	\$ 15,917,432	\$ 14,053,342	\$ 13,319,358	\$ 11,862,105	\$ 9,703,681	\$ 9,024,025	\$ 9,671,175	\$ 8,827,028	\$ 8,318,607	\$ 7,648,046
District's proportionate share of the net pension liability as a percentage of its covered payroll	45.97%	50.07%	46.55%	21.44%	55.69%	55.90%	49.33%	29.20%	34.71%	34.46%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

Note 1: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

**Kemp Independent School District**  
**Schedule of the District's Contributions to the Pension Plan – Teacher Retirement System of Texas (Exhibit G-3)**  
**Year Ended June 30, 2025**

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contributions	\$ 718,386	\$ 638,704	\$ 516,015	\$ 482,536	\$ 413,664	\$ 380,720	\$ 333,726	\$ 295,965	\$ 260,739	\$ 235,290
Contributions in relation to the contractually required contribution	(718,386)	(638,704)	(516,015)	(482,536)	(413,664)	(380,720)	(333,726)	(295,965)	(260,739)	(235,290)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 17,648,324	\$ 15,917,432	\$ 14,053,342	\$ 13,319,358	\$ 11,862,105	\$ 9,703,681	\$ 9,024,025	\$ 9,671,175	\$ 8,827,028	\$ 8,318,607
Contributions as a percentage of covered payroll	4.07%	4.01%	3.67%	3.62%	3.49%	3.92%	3.70%	3.06%	2.95%	2.83%

Note 1: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

**Kemp Independent School District**  
**Schedule of the District's Proportionate Share of the Net OPEB Liability (Exhibit G-4)**  
**Year Ended June 30, 2025**

	2025	2024	2023	2022	2021	2020	2019	2018
District's proportion of the net OPEB liability	0.0001687%	0.0150860%	0.0148854%	0.0157879%	0.0163027%	0.0155389%	0.0135066%	0.0105164%
District's proportionate share of the net OPEB liability	\$ 5,120,061	\$ 3,339,779	\$ 3,564,165	\$ 6,090,081	\$ 6,197,397	\$ 7,348,524	\$ 6,743,852	\$ 4,573,198
State's proportionate share of the net OPEB liability associated with the District	6,415,367	4,029,956	4,347,721	8,159,351	8,327,816	9,764,545	8,100,579	6,877,925
<b>Totals</b>	<b>\$ 11,535,428</b>	<b>\$ 7,369,735</b>	<b>\$ 7,911,886</b>	<b>\$ 14,249,432</b>	<b>\$ 14,525,213</b>	<b>\$ 17,113,069</b>	<b>\$ 14,844,431</b>	<b>\$ 11,451,123</b>
District's covered payroll	\$ 15,917,432	\$ 14,053,342	\$ 13,319,358	\$ 11,862,105	\$ 9,703,681	\$ 9,024,025	\$ 9,671,175	\$ 8,827,028
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	32.17%	23.77%	26.76%	51.34%	52.25%	81.43%	69.73%	51.81%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

**Note 1:** The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

**Note 2:** Plan information was unavailable prior to 2018.

**Kemp Independent School District**  
**Schedule of the District's Contributions to the OPEB Plan (Exhibit G-5)**  
**Year Ended June 30, 2025**

	2025	2024	2023	2022	2021	2020	2019	2018
Contractually required contributions	\$ 165,589	\$ 150,910	\$ 127,220	\$ 122,914	\$ 118,072	\$ 113,692	\$ 109,678	\$ 88,863
Contributions in relation to the contractually required contributions	(165,589)	(150,910)	(127,220)	(122,914)	(118,072)	(113,692)	(109,678)	(88,863)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 17,648,324	\$ 15,917,432	\$14,053,342	\$ 13,319,358	\$ 11,862,105	\$ 9,703,681	\$ 9,024,025	\$ 9,671,175
Contributions as a percentage of covered payroll	0.94%	0.95%	0.91%	0.92%	1.00%	1.17%	1.22%	0.92%

Note 1: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note 2: Plan information was unavailable prior to 2018.

## **Note 1 - Budget**

### **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. The Texas Education Code requires the budget to be prepared not later than June 19 and adopted by June 30 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 following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

## **Note 2 - Pension**

### **Changes of Benefit Terms**

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.

### **Changes of Assumptions**

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

### **Note 3 - OPEB**

#### **Changes of Benefit Terms**

Since the last valuation was prepared for this plan, Texas Senate Bill 1055, which was signed by the Governor on May 10, 2023, added Stephen F. Austin State University into the University of Texas System. As a result, eligible employees of Stephen F. Austin State University ceased being members under this OPEB plan effective August 31, 2023. This change is reflected in the Total OPEB Liability as of August 31, 2023. In addition, this valuation reflects the minor benefit changes that became effective September 1, 2023, since these changes were announced to plan members in advance of August 31, 2023. These minor benefit changes, which are not expected to have a significant impact on plan costs for fiscal year 2024, are provided for in the fiscal year 2024 Assumed Per Capita Health Benefit Costs.

#### **Changes of Assumptions**

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

- The discount rate changed from 4.13 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.

Other Supplementary Information  
June 30, 2025

## Kemp Independent School District

Kemp Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds-Special Revenue Funds (Exhibit H-1)  
June 30, 2025

Data Control Codes	<u>205</u>	<u>211</u>	<u>224</u>
	Head Start	ESEA Title I Improving Basic Programs	IDEA - Part B Formula
<b>Assets</b>			
1110	\$ -	\$ -	\$ -
1240	69,147	14,331	22,703
1260	-	57,547	32,079
1290	-	-	-
1300	-	-	-
1000	<u>\$ 69,147</u>	<u>\$ 71,878</u>	<u>\$ 54,782</u>
<b>Liabilities</b>			
2160	\$ 10,398	\$ 61,746	\$ 46,322
2170	55,030	-	-
2180	-	-	-
2210	3,719	10,132	8,460
2300	-	-	-
2000	<u>69,147</u>	<u>71,878</u>	<u>54,782</u>
<b>Fund Balances</b>			
3410	-	-	-
3450	-	-	-
3545	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 69,147</u>	<u>\$ 71,878</u>	<u>\$ 54,782</u>

Kemp Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds-Special Revenue Funds (Exhibit H-1)  
June 30, 2025

<u>225</u>	<u>240</u>	<u>244</u>	<u>255</u>	<u>263</u>
IDEA - Part B Preschool	National Breakfast & Lunch Program	Career & Technical - Basic Grant	ESEA Title II Training and Recruiting	Title III, A English Lang. Acquisition
\$ -	\$ 807,023	\$ -	\$ -	\$ -
788	-	90	-	-
-	520,010	-	-	-
-	-	-	-	-
-	33,122	-	-	-
<u>\$ 788</u>	<u>\$ 1,360,155</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 68,531	\$ -	\$ -	\$ -
725	-	90	-	-
-	-	-	-	-
63	9,256	-	-	-
-	33,124	-	-	-
<u>788</u>	<u>110,911</u>	<u>90</u>	<u>-</u>	<u>-</u>
-	33,122	-	-	-
-	1,216,122	-	-	-
-	-	-	-	-
<u>-</u>	<u>1,249,244</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 788</u>	<u>\$ 1,360,155</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ -</u>

Kemp Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds-Special Revenue Funds (Exhibit H-1)  
June 30, 2025

<u>Data Control Codes</u>	<u>272</u>	<u>280</u>	<u>282</u>
	Medicaid Administrative Claim Program (MAC)	ARP Homeless II	ARP ESSER III
<b>Assets</b>			
1110	Cash and cash equivalents	\$ -	\$ -
1240	Due from other governments	-	-
1260	Due from other funds	-	-
1300	Inventories	-	-
1000	<b>Total assets</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>			
2160	Accrued wages payable	\$ -	\$ -
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2210	Accrued expenditures	-	-
2300	Unearned revenue	-	-
2000	<b>Total liabilities</b>	<u>-</u>	<u>-</u>
<b>Fund Balances</b>			
3410	Nonspendable - inventories	-	-
3450	Restricted - grants	-	-
3545	Committed - other	-	-
	<b>Total fund balances</b>	<u>-</u>	<u>-</u>
	<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ -</u>

Kemp Independent School District

Combining Balance Sheet – Nonmajor Governmental Funds-Special Revenue Funds (Exhibit H-1)

June 30, 2025

<u>289</u>	<u>315</u>	<u>410</u>	<u>429</u>	<u>459</u>
Other Federal Special Revenue Funds	SSA IDEA-B Discretionary	State Instructional Materials	Other State Special Revenue Funds	Special Revenue Fund Shared Service Arrangement
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	41,837	-
5,250	1,426	-	-	-
-	-	-	-	-
<u>\$ 5,250</u>	<u>\$ 1,426</u>	<u>\$ -</u>	<u>\$ 41,837</u>	<u>\$ -</u>
\$ 4,124	\$ -	\$ -	\$ -	\$ -
-	-	-	41,837	-
-	1,426	-	-	-
1,126	-	-	-	-
-	-	-	-	-
<u>5,250</u>	<u>1,426</u>	<u>-</u>	<u>41,837</u>	<u>-</u>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 5,250</u>	<u>\$ 1,426</u>	<u>\$ -</u>	<u>\$ 41,837</u>	<u>\$ -</u>

Kemp Independent School District  
Combining Balance Sheet – Nonmajor Governmental Funds-Special Revenue Funds (Exhibit H-1)  
June 30, 2025

Data Control Codes	<u>461</u>	<u>465</u>	<u>486</u>	Total Nonmajor Governmental Funds (See Exhibit C-1)
	Campus Activity Fund	Local Special Revenue	Coalition of Essential Schools	
<b>Assets</b>				
1110	\$ 98	\$ 9	\$ -	\$ 807,130
1240	-	-	-	148,896
1260	203,222	-	5,776	825,310
1300	-	-	-	33,122
1000	<u>\$ 203,320</u>	<u>\$ 9</u>	<u>\$ 5,776</u>	<u>\$ 1,814,458</u>
<b>Liabilities</b>				
2160	\$ -	\$ -	\$ -	\$ 191,121
2170	-	-	-	97,682
2180	-	-	-	1,426
2210	-	-	-	32,756
2300	-	9	-	33,133
2000	<u>-</u>	<u>9</u>	<u>-</u>	<u>356,118</u>
<b>Fund Balances</b>				
3410	-	-	-	33,122
3450	-	-	5,776	1,221,898
3545	203,320	-	-	203,320
	<u>203,320</u>	<u>-</u>	<u>5,776</u>	<u>1,458,340</u>
	<u>\$ 203,320</u>	<u>\$ 9</u>	<u>\$ 5,776</u>	<u>\$ 1,814,458</u>

Kemp Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds - Special Revenue Funds (Exhibit H-2)  
Year Ended June 30, 2025

Data Control Codes	205	211	224
	Head Start	ESEA Title I Improving Basic Programs	IDEA - Part B Formula
Revenues			
5700	\$ -	\$ -	\$ -
5800	-	-	-
5900	161,047	572,891	431,307
5020	161,047	572,891	431,307
Expenditures			
Current			
0011	161,047	571,742	431,307
0012	-	1,149	-
0031	-	-	-
0033	-	-	-
0035	-	-	-
0036	-	-	-
0051	-	-	-
0052	-	-	-
Debt service			
0093	-	-	-
6030	161,047	572,891	431,307
1100	-	-	-
Other financing sources (uses)			
7915	-	-	-
	-	-	-
1200	-	-	-
0100	-	-	-
3000	\$ -	\$ -	\$ -

Kemp Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds – Special Revenue Funds (Exhibit H-2)  
Year Ended June 30, 2025

225	240	244	255	263
IDEA - Part B Preschool	National Breakfast & Lunch Program	Career & Technical - Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition
\$ -	\$ 203,589	\$ -	\$ -	\$ -
-	56,733	-	-	-
<u>7,084</u>	<u>1,533,337</u>	<u>28,061</u>	<u>66,766</u>	<u>15,640</u>
<u>7,084</u>	<u>1,793,659</u>	<u>28,061</u>	<u>66,766</u>	<u>15,640</u>
7,084	-	28,061	66,766	15,640
-	-	-	-	-
-	-	-	-	-
-	1,460,679	-	-	-
-	-	-	-	-
-	48,712	-	-	-
-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>7,084</u>	<u>1,509,391</u>	<u>28,061</u>	<u>66,766</u>	<u>15,640</u>
<u>-</u>	<u>284,268</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>284,268</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>964,976</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 1,249,244</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Kemp Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds – Special Revenue Funds (Exhibit H-2)  
Year Ended June 30, 2025

Data Control Codes	<u>272</u>	<u>280</u>	<u>282</u>
	Medicaid Administrative Claim Program (MAC)	ARP Homeless I	ARP ESSER III
Revenues			
5700	Local and intermediate revenues	\$ -	\$ -
5800	State program revenues	-	-
5900	Federal program revenues	16,057	199,224
5020	Total revenues	<u>16,057</u>	<u>199,224</u>
Expenditures			
Current			
0011	Instruction	-	199,224
0012	Instructional resources and media services	-	-
0031	Guidance, counseling, and evaluation services	16,057	-
0033	Health services	-	763
0035	Food service	-	-
0036	Extracurricular activities	-	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
Debt service			
0093	Payments related to shared service arrangements	-	-
6030	Total expenditures	<u>16,057</u>	<u>199,224</u>
1100	Excess (deficiency) of revenues over (under) expenditures	-	-
Other financing sources (uses)			
7915	Transfers in	-	-
	Total other financing sources (uses)	-	-
1200	Net change in fund balances	-	-
0100	Fund balances, beginning	-	-
3000	Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>

Kemp Independent School District  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
Funds – Special Revenue Funds (Exhibit H-2)  
Year Ended June 30, 2025

<u>289</u>	<u>315</u>	<u>410</u>	<u>429</u>	<u>459</u>
Other Federal Special Revenue Funds	SSA IDEA-B Discretionary	State Instructional Materials	Other State Special Revenue Funds	Special Revenue Fund Shared Service Arrangement
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	112,848	583,868	90,553
<u>141,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>141,939</u>	<u>-</u>	<u>112,848</u>	<u>583,868</u>	<u>90,553</u>
36,830	-	103,941	350	7,055
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	8,907	-	-
-	-	-	-	-
105,109	-	-	583,518	-
-	-	-	-	129,110
<u>141,939</u>	<u>-</u>	<u>112,848</u>	<u>583,868</u>	<u>136,165</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(45,612)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,612</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,612</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Kemp Independent School District**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental**  
**Funds – Special Revenue Funds (Exhibit H-2)**  
**Year Ended June 30, 2025**

Data Control Codes	<u>461</u>	<u>465</u>	<u>486</u>	Total Nonmajor Governmental Funds (See Exhibit C-2)
	Campus Activity Fund	Local Special Revenue	Coalition of Essential Schools	
<b>Revenues</b>				
5700	Local and intermediate revenues	\$ 173,499	\$ -	\$ -
5800	State program revenues	-	-	844,002
5900	Federal program revenues	-	-	3,174,116
5020	Total revenues	<u>173,499</u>	<u>-</u>	<u>4,395,206</u>
<b>Expenditures</b>				
<b>Current</b>				
0011	Instruction	-	-	1,629,047
0012	Instructional resources and media services	-	-	1,149
0031	Guidance, counseling, and evaluation services	-	-	16,057
0033	Health services	-	-	763
0035	Food service	-	-	1,460,679
0036	Extracurricular activities	106,809	-	115,716
0051	Plant maintenance and operations	-	-	48,712
0052	Security and monitoring services	-	-	688,627
<b>Debt service</b>				
0093	Payments related to shared service arrangements	-	-	129,110
6030	Total expenditures	<u>106,809</u>	<u>-</u>	<u>4,089,860</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>66,690</u>	<u>-</u>	<u>305,346</u>
<b>Other financing sources (uses)</b>				
7915	Transfers in	-	-	45,612
	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>45,612</u>
1200	Net change in fund balances	66,690	-	350,958
0100	Fund balances, beginning	<u>136,630</u>	<u>-</u>	<u>5,776</u>
3000	Fund balances, ending	<u>\$ 203,320</u>	<u>\$ -</u>	<u>\$ 5,776</u>
		<u>\$ 203,320</u>	<u>\$ -</u>	<u>\$ 5,776</u>

Required TEA Schedules  
June 30, 2025

# Kemp Independent School District

Kemp Independent School District  
 12-Month Schedule of Delinquent Taxes Receivable (Exhibit J-1)  
 Year Ended June 30, 2025

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<u>Year Ended June 30,</u>	<u>Tax Rates</u>		<u>3 Assessed/Appraised Value For School Tax Purposes</u>
	<u>1 Maintenance</u>	<u>2 Debt Service</u>	
2016 and prior years	\$ Various	\$ Various	\$ Various
2017	1.170000	0.40000	319,351,019
2018	1.170000	0.40000	336,583,376
2019	1.170000	0.34400	390,595,971
2020	1.068000	0.34000	463,662,145
2021	0.975600	0.33233	539,324,490
2022	0.960000	0.28150	655,117,021
2023	0.942600	0.24997	834,034,478
2024	0.757200	0.21953	898,209,339
2025 (school year under audit)	0.754900	0.21950	962,694,397
1000 Totals			
8000 Taxes Refunded			

Kemp Independent School District  
Schedule of Delinquent Taxes Receivable (Exhibit J-1)  
Year Ended June 30, 2025

10 Beginning Balance July 1, 2024	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance June 30, 2025	99 Total Taxes Refunded Under Section 26.1115(c)
\$ 119,790	\$ -	\$ 7,770	\$ 2,319	\$ (934)	\$ 108,767	
19,955	-	1,967	673	-	17,315	
23,000	-	3,104	1,061	-	18,835	
27,371	-	4,437	1,305	-	21,629	
41,991	-	8,110	2,582	-	31,299	
56,692	-	14,819	5,048	3,194	40,019	
104,013	-	25,319	7,424	6,961	78,231	
259,871	-	70,156	18,527	7,861	179,049	
693,627	-	255,181	73,121	(73,878)	291,447	
-	9,387,458	6,719,860	1,948,534	-	719,064	
\$ 1,346,310	\$ 9,387,458	\$ 7,110,723	\$ 2,060,594	\$ (56,796)	\$ 1,505,655	
						\$ -

Kemp Independent School District  
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – National School  
Breakfast and Lunch (Exhibit J-2)  
Year Ended June 30, 2025

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
Revenues					
5700	Local and intermediate revenues	\$ 272,279	\$ 272,279	\$ 203,589	\$ (68,690)
5800	State program revenues	40,000	40,000	56,733	16,733
5900	Federal program revenues	1,585,000	1,603,510	1,533,337	(70,173)
5020	Total revenues	1,897,279	1,915,789	1,793,659	(122,130)
Expenditures					
Current					
Support services - student (pupil)					
0035	Food service	1,966,779	2,022,489	1,460,679	561,810
0051	Plant maintenance and operations	30,500	65,500	48,712	16,788
	Total support services - student (pupil)	1,997,279	2,087,989	1,509,391	578,598
6030	Total expenditures	1,997,279	2,087,989	1,509,391	578,598
1100	(Deficiency) excess of revenues (under) over expenditures	(100,000)	(172,200)	284,268	456,468
1200	Net change in fund balance	(100,000)	(172,200)	284,268	456,468
0100	Fund balance, beginning	964,976	964,976	964,976	-
3000	Fund balance, ending	\$ 864,976	\$ 792,776	\$ 1,249,244	\$ 456,468

Kemp Independent School District

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund  
(Exhibit J-3)

Year Ended June 30, 2025

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
Revenues					
5700	Local and intermediate revenues	\$ 2,110,134	\$ 2,110,134	\$ 2,142,071	\$ 31,937
5800	State program revenues	-	400,000	321,883	(78,117)
5020	Total revenues	<u>2,110,134</u>	<u>2,510,134</u>	<u>2,463,954</u>	<u>(46,180)</u>
Expenditures					
Debt service:					
0071	Principal on long-term debt	1,410,000	1,410,000	1,410,000	-
0072	Interest on long-term debt	394,323	394,323	394,323	-
0073	Issuance costs and fees	305,811	705,811	685,362	20,449
	Total debt service	<u>2,110,134</u>	<u>2,510,134</u>	<u>2,489,685</u>	<u>20,449</u>
6030	Total expenditures	<u>2,110,134</u>	<u>2,510,134</u>	<u>2,489,685</u>	<u>20,449</u>
1100	Excess of revenues over expenditures	-	-	(25,731)	(25,731)
1200	Net change in fund balance	-	-	(25,731)	(25,731)
0100	Fund balance, beginning	<u>1,185,522</u>	<u>1,185,522</u>	<u>1,185,522</u>	-
3000	Fund balance, ending	<u>\$ 1,185,522</u>	<u>\$ 1,185,522</u>	<u>\$ 1,159,791</u>	<u>\$ (25,731)</u>

<u>Data Control Codes</u>		<u>Responses</u>
<u>Section A: Compensatory Education Programs</u>		
AP1	Did your District expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the District have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	\$ 2,230,151
AP4	List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 1,287,807
<u>Section B: Bilingual Education Programs</u>		
AP5	Did your District expend any bilingual education program state allotment funds during the District's fiscal year?	Yes
AP6	Does the District have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the District's fiscal year.	\$ 219,790
AP8	List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35)	\$ 140,839

Single Audit Section

June 30, 2025

# Kemp Independent School District



**Independent Auditor's 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***

To the Board of Trustees of  
Kemp Independent School District  
Kemp, Texas

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 (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kemp Independent School District (the District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2025.

**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 District'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 may exist that have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Abilene, Texas  
December 5, 2025



**Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for the Major Federal Program**

***Opinion on the Major Federal Program***

We have audited Kemp 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 its major federal program for the year ended June 30, 2025. The District's major federal program is 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 other ethical responsibilities, in accordance with 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 the 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 program.

### ***Auditor's Responsibilities 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 GAAS, *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 the major federal program as a whole.

In performing an audit in accordance with GAAS, *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 a 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.

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.



Abilene, Texas  
December 5, 2025

Kemp Independent School District  
Schedule of Expenditures of Federal Awards (Exhibit K-1)  
Year Ended June 30, 2025

Fund Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture				
Passed - Through Texas Education Agency				
Child Nutrition Cluster				
240	National School Breakfast Program	10.553	71302501	\$ 260,672
240	National School Breakfast Program	10.553	71302401	66,367
240	National School Lunch Program - Cash Assistance*	10.555	71302501	876,817
240	National School Lunch Program - Cash Assistance*	10.555	71302401	231,201
240	National School Lunch Program - Noncash Assistance*	10.555	71302501	97,080
240	Summer Food Service Program for Children	10.559	71302501	<u>1,200</u>
	Total Child Nutrition Cluster			<u>1,533,337</u>
	Total U.S. Department of Agriculture			<u>1,533,337</u>
U.S. Department of Education				
Passed - Through Region 10 ESC				
255	Title II, Part A - Supporting Effective Instruction	84.367A	25694501057950	66,766
263	Title III, Part A - English Language Acquisition	84.365A	25671003129904	14,062
280	COVID-19 ARP Homeless II - Texas Education for Homeless*** Children and Youth (TEHCY) Program	84.425W	21533002057950	<u>763</u>
	Total Passed - Through Education Service Center, Region 10			<u>81,591</u>
U.S. Department of Education				
Passed - Through Texas Education Agency				
Title I Grants to Local Education Agencies				
211	Title I, Part D, Subpart 2	84.010A	25610101129904	492,795
211	Title I, Part D, Subpart 2	84.010A	24610101129904	<u>80,096</u>
	Total Title I Grants to Local Education Agencies			<u>572,891</u>
Special Education Cluster (IDEA)				
224	IDEA- Part B, Formula**	84.027A	256600011299046000	419,789
224	IDEA- Part B, Formula**	84.027A	246600011299046000	11,518
225	IDEA- Part B, Preschool	84.173A	256610011299046000	<u>7,084</u>
	Total Special Education Cluster (IDEA)			<u>438,391</u>
Career and Technical Education -- Basic Grants to States				
244	Career and Technical Education -- Basic Grants to States	84.048A	25420006129904	28,061

Kemp Independent School District  
Schedule of Expenditures of Federal Awards (Exhibit K-1)  
Year Ended June 30, 2025

Fund Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass Through Entity Identifying Number	Expenditures
263	Title III, Part A - English Language Acquisition	84.365A	25671003129904	\$ 1,578
282	COVID-19 Elementary and Secondary School Emergency Relief Fund***	84.425U	21528001129904	199,224
289	Title IV, Part A - Student Support and Academic Enrichment Grants	84.424A	25680101129904	60,262
289	Title IV, Part A - Student Support and Academic Enrichment Grants	84.424A	24680101129904	<u>9,724</u>
	Total Title IV, Part A Grants (ALN 84.424A)			<u>69,986</u>
	Total Passed - Through Texas Education Agency			1,310,131
	Total U.S. Department of Education			<u>1,391,722</u>
	U.S. Department of Health and Human Services			
	Passed - Through Region 10 ESC			
205	Head Start	93.600	06CH01232701	<u>161,047</u>
	Total Passed - Through Education Service Center, Region 10			<u>161,047</u>
	Total U.S. Department of Health and Human Services			<u>161,047</u>
272	Passed -Through Texas Health and Human Services Commission Medicaid Administrative Claiming Program - MAC	93.778	HHS000537900030	16,057
	Department of Justice			
289	Public Safety Partnership and Community Policing Grants - COPS	16.710	15JCOPS-22-GG-04277-SCAX	<u>71,953</u>
	Total Department of Justice			<u>71,953</u>
	Total Federal Financial Assistance			<u>\$ 3,174,116</u>
				* Total National School Lunch Program (ALN 10.555) \$ 1,205,098
				** Total IDEA - Part B, Formula/Discretionary/ARP (ALN 84.027A) 431,307
				*** Total COVID-19 Elementary and Secondary School Emergency Relief Fund (ALN 84.425) 199,987

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2025. The information 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). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position or fund balance of the District.

**Note 2 - Summary of Significant Accounting Policies**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.

School health and related services revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-3 to the Schedule of Expenditures of Federal Awards:

Total expenditures of federal awards per Exhibit K-1	\$	3,174,116
General fund - federal revenue		
School Health and Related Services (SHARS)		187,425
QSCB Bond Interest Reimbursement		26,351
Total federal revenues per Exhibit C-3	<u>\$</u>	<u>3,387,892</u>

**Note 3 - Indirect Cost Rate**

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

**Note 4 - Food Donation**

Nonmonetary assistance is reported in this schedule at the fair market value of the commodities received and disbursed.

**Section I – Summary of Auditor's Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required reported in accordance with Uniform Guidance 2 CFR 200.516(a):	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing/ALN Number</u>
Child Nutrition Cluster	10.553; 10.555; 10.559
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

**Section II – Financial Statement Findings**

The audit disclosed no findings required to be reported.

**Section III – Federal Award Findings and Questioned Costs**

The audit disclosed no findings and questioned costs required to be reported.

Kemp Independent School District  
 Schedule of Required Responses to Selected School First Indicators (Exhibit L-1)  
 Year Ended June 30, 2025

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<u>Data Control Codes</u>		<u>Responses</u>
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ 87,732

Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings  
June 30, 2025  
Prepared by Management of  
**Kemp Independent School District**

## Kemp Independent School District - Summary Schedule of Prior Audit Findings

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Findings 2024-001

*Initial Fiscal Year Finding Occurred: 2024*

*Finding Summary:* Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements. They also proposed material audit adjustments to capital assets that would not have been identified because of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

*Status:* Corrective action was taken.

**APPENDIX E**

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The following is incorporated into the offering document to which it is attached.*

## **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

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

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

### **History and Purpose**

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole

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

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “Capacity Limits for the Guarantee Program”). The Charter District Bond Guarantee

Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General (the “Attorney General”) been requested to issue an opinion, with respect to its constitutional validity.

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

## **Management and Administration of the Fund**

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

management, with one member being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

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

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

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

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

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

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor or a certified public accountant audits the financial statements of the PSF, which are separate from other financial statements of the State. Additionally, not less than once each year, the PSFC Board must submit an audit report to the Legislative Budget Board ("LBB") regarding

the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with State laws.

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

### **The Total Return Constitutional Amendment**

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

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

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

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

**Annual Distributions to the Available School Fund<sup>1</sup>**

<u>Fiscal Year Ending</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023<sup>2</sup></u>	<u>2024</u>	<u>2025</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156	\$2,156
PSF(SBOE) Distribution	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-	-
PSF(SLB) Distribution	-	-	-	300	600	600 <sup>3</sup>	415	115	-	-
Per Student Distribution	215	212	247	306	347	341	432	440	430	428

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

<sup>2</sup> Reflects the first fiscal year in which distributions were made by the PSF Corporation.

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

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

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

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

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

### **PSF Corporation Strategic Asset Allocation**

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

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Range<sup>1</sup></b>
Cash Equivalent	3.0%	n/a
Core Bonds	9.0%	+/- 5.0%
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%
Large Cap U.S. Equity	15.0%	+/- 5.0%
Small/Mid-Cap U.S. Equity	3.0%	+/- 5.0%
Non-U.S. Developed Equity	8.0%	+/- 5.0%
Absolute Return	6.0%	+/- 5.0%
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%
Real Estate	10.5%	+/- 5.0%
Natural Resources	4.0%	+/- 5.0%
Infrastructure	6.0%	+/- 5.0%

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

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

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## Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2025 and 2024

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

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

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

### Investment Schedule - PSF(SLB)<sup>1</sup>

	<u>Fair Value (in millions) August 31, 2025</u>
	As of <u>8-31-25</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 279.84
Discretionary Internal Investments	989.22
Other Lands	153.17
Minerals <sup>(2), (3)</sup>	<u>4,872.77</u> <sup>(6)</sup>
Total Investments <sup>(4)</sup>	\$6,294.99
Cash in State Treasury <sup>(5)</sup>	575.70
Total Investments & Cash in State Treasury	\$ 6,870.70

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

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

<sup>3</sup> Includes an estimated 1,000,000.00 acres in freshwater rivers.

<sup>4</sup> Includes an estimated 1,747,600.00 in excess acreage.

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

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

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

### The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of

the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding

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

### **The Charter District Bond Guarantee Program**

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

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

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

In accordance with the Act, the Education Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district’s bonds must be approved by the Attorney

General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

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

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

The CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purpose described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the Attorney

General (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

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

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

### **Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a

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

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

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

<u>Changes in SBOE-determined multiplier for State Capacity Limit</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of December 31, 2025

the cost value of the Guarantee Program was \$51,913,224,643 (unaudited), thereby producing an IRS Limit of \$259,566,123,215 in principal amount of guaranteed bonds outstanding.

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

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

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

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

## **2017 Legislative Changes to the Charter District Bond Guarantee Program**

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

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

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

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

## **Charter District Risk Factors**

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that

are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act established the Charter District Reserve Fund, to serve as a reimbursement resource for the PSF.

**Ratings of Bonds Guaranteed Under the Guarantee Program**

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

**Valuation of the PSF and Guaranteed Bonds**

<b>Permanent School Fund Valuations</b>		
<b>Fiscal Year Ended 8/31</b>	<b>Book Value<sup>(1)</sup></b>	<b>Market Value<sup>(1)</sup></b>
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024	47,047,688,784	62,766,382,537
2025 <sup>(2)</sup>	50,832,583,937	66,549,781,438

<sup>(1)</sup> SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

<sup>(2)</sup> At August 31, 2025, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.3 million, and

\$830.7 million, respectively, and market values of approximately \$4,872.7 million, \$279.8 million, \$153.1 million, and \$989.2 million, respectively.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098 <sup>(2)</sup>

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

<sup>(2)</sup> At August 31, 2025 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$230,761,751,555, of which \$86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were \$143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

**Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

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

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

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

the projected guarantee capacity available was \$32,174,623,697 (based on unaudited data, which is subject to adjustment).

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

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

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

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include private credit<sup>1</sup>, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2025 Annual Report which is included by reference herein.

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<sup>1</sup> The Private Credit asset class was renamed Private Debt, beginning in October 2024.

**PSF Returns Fiscal Year Ended 8-31-2025<sup>1</sup>**

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

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

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

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

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

**Other Events and Disclosures**

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the

TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at [texaspsf.org](https://texaspsf.org).

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

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

### **PSF Continuing Disclosure Undertaking**

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

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

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

### **Annual Reports**

The PSF Corporation, on behalf of the TEA, and the TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and

the PSF of the general type included in this offering document under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.” The information also includes the Annual Report. The PSF Corporation will update and provide this information within six months after the end of each fiscal year.

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

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

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

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

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

## Event Notices

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

by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

### **Availability of Information**

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

### **Limitations and Amendments**

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

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

This continuing disclosure agreement may be amended by the TEA or the PSF Corporation from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA or the PSF Corporation, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA or the PSF Corporation (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA or the PSF Corporation may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12

are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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