

Dated July 29, 2026

Ratings:

S&P: "AAA" (PSF) / "AA-"

Fitch: "AAA" (PSF) / "AA-"

(See "OTHER INFORMATION –
Ratings" & "APPENDIX D - THE
PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

\$33,915,000*
KRUM INDEPENDENT SCHOOL DISTRICT
(Denton and Wise Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING
AND REFUNDING BONDS, SERIES 2026

Dated: September 1, 2026

(Interest accrues from Delivery Date, defined below)

Due: As shown on Page 2

PAYMENT TERMS . . . Interest on the \$33,915,000* Krum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2026 (the "Bonds") will accrue from the Delivery Date (defined below) to the initial purchasers thereof named below (the "Underwriters") and will be payable initially on February 15, 2027 and each August 15 and February 15 thereafter, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distributions of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an order (the "Bond Order") passed by the Board of Trustees (the "Board") of the District (defined below) on June 10, 2026, in which the Board delegated to certain officials of the District (each, a "Pricing Officer") authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and Pricing Certificate are jointly referred to as the "Order") and, with respect to the portion of the Bonds that are issued for school building construction purposes, an election held by the Krum Independent School District (the "District") on May 7, 2022, and are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order authorizing the issuance of the Bonds (see "THE BONDS - Authority for Issuance"). **The District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

MATURITY SCHEDULE

See page 2

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities in the District (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities; (ii) refunding a portion of the District's outstanding debt (the "Refunded Bonds") for debt service savings (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Bonds and their call dates); and (iii) payment of the costs associated with the issuance of the Bonds.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 3, 2026 (the "Delivery Date").

RBC CAPITAL MARKETS

MESIROW FINANCIAL, INC.

* Preliminary, subject to change.

\$33,915,000*
KRUM INDEPENDENT SCHOOL DISTRICT
(Denton and Wise Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2026

CUSIP ⁽¹⁾ Prefix: 501098

MATURITY SCHEDULE*

<u>Principal Amount</u>	<u>Maturity 8/15</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP ⁽¹⁾</u>	<u>Principal Amount</u>	<u>Maturity 8/15</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP ⁽¹⁾</u>
\$ 1,370,000	2027				\$ 690,000	2044			
1,070,000	2028				725,000	2045			
1,120,000	2029				765,000	2046			
1,675,000	2030				800,000	2047			
1,245,000	2031				840,000	2048			
1,295,000	2032				885,000	2049			
1,355,000	2033				930,000	2050			
445,000	2034				975,000	2051			
1,780,000	2035				1,025,000	2052			
2,155,000	2036				1,075,000	2053			
490,000	2037				1,130,000	2054			
515,000	2038				1,185,000	2055			
545,000	2039				1,245,000	2056			
570,000	2040				1,305,000	2057			
600,000	2041				1,375,000	2058			
630,000	2042				1,445,000	2059			
660,000	2043								

(Interest to accrue from Delivery Date)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . If two or more consecutive maturities of the Bonds are grouped into a single maturity (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with applicable provisions of the Order and will be described in the final Official Statement. (see "THE BONDS – Mandatory Sinking Fund Redemption").

* Preliminary, subject to change.

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), 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 the Rule.

This document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "final official statement" of the District with respect to the Bonds, as such term is defined in the Rule.

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

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES 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 DESCRIBED UNDER "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED IN "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND THE TEA, RESPECTIVELY.

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

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

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 offering document.

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The Krum Independent School District (the "District") is a political subdivision located in Denton and Wise 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. For more information regarding the District, see "APPENDIX A – FINANCIAL GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY" and "APPENDIX B – EXCERPTS FROM THE KRUM INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT".
THE BONDS	The \$33,915,000* Unlimited Tax School Building and Refunding Bonds, Series 2026 (the "Bonds") mature on August 15 in each of the years 2027 through 2059, inclusive, unless the underwriters of the Bonds identified on the cover page hereof (the "Underwriters") designate two or more consecutive maturities as one or more "Term Bonds" (see "THE BONDS – Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Delivery Date and is payable initially on February 15, 2027 and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS – Description of the Bonds" and "THE BONDS – Optional Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an order (the "Bond Order") passed by the Board of Trustees of the District (the "Board") on June 10, 2026, in which the Board delegated to certain officials of the District (each, a "Pricing Officer") authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and Pricing Certificate are jointly referred to as the "Order") and, with respect to the portion of the Bonds that are issued for school building construction purposes, an election held by the District on May 7, 2022, and are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order authorizing the issuance of the Bonds (see "THE BONDS - Authority for Issuance").
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE BONDS - Security and Source of Payment").
PERMANENT SCHOOL FUND GUARANTEE	The District has made application to the Texas Education Agency and has received conditional approval for payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
TAX EXEMPTION	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.
REDEMPTION PROVISIONS	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__ or any date thereafter, at the par value 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" (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Order (see "THE BONDS – Mandatory Sinking Fund Redemption").

* Preliminary, subject to change.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for (i) purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities in the District (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities; (ii) refunding a portion of the District's outstanding debt (the "Refunded Bonds") for debt service savings (see "PLAN OF FINANCING"; also see Schedule I for a detailed listing of the Refunded Bonds and their call dates); and (iii) payment of the costs associated with the issuance of the Bonds.

RATINGS The Bonds are rated "AAA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") and "AAA" by Fitch Ratings ("Fitch") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding debt are rated "AA-" by S&P and "AA-" by Fitch without regard to credit enhancement. See "OTHER INFORMATION - Ratings".

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

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

For additional information regarding the District, please contact:

Dr. Jason Cochran		George Williford
Superintendent		Managing Director
Krum Independent School District	or	Hilltop Securities Inc.
1200 Bobcat Blvd.		717 North Harwood Street, Suite 3400
Krum, Texas 76249		Dallas, Texas 75201
(940) 435-7112		(214) 953-8705

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Term Expires</u>
Eric Borchardt President	May, 2027
Kaci Cook Vice President	May, 2028
Brooke Fouts Secretary	May, 2029
Cody Carter Board Member	May, 2029
Matt Martinez Board Member	May, 2028
Michael Paul Board Member	May, 2029
Nick Vincent Board Member	May, 2027

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Dr. Jason Cochran	Superintendent
Misty Ward	Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors	Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC Denton, Texas
Bond Counsel	Norton Rose Fulbright US LLP Dallas, Texas
Financial Advisor.....	Hilltop Securities Inc. Dallas, Texas

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$33,915,000*
KRUM INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the Appendices and Schedule I hereto, provides certain information regarding the issuance of \$33,915,000* Krum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2026 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (as defined below) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Krum Independent School District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Dallas, Texas.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities in the District (and any necessary or related removal of existing facilities), and the purchase of the necessary sites for school facilities; (ii) refunding a portion of the District's outstanding debt (the "Refunded Bonds") for debt service saving (see Schedule I for a detailed listing of the Refunded Bonds and their call dates), and (iii) payment of the costs associated with the issuance of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the redemption date shown on Schedule I hereto (the "Redemption Date") from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania, as Escrow Agent (the "Escrow Agent"), pursuant to an escrow agreement (the "Escrow Agreement") between the District and the Escrow Agent. The Order provides that from a portion of the proceeds of the sale of the Bonds received from the underwriters listed on the cover page hereof (the "Underwriters") and other available funds of the District, if any, the District will deposit with the Escrow Agent an amount which, when added to the investment earnings on the Defeasance Securities (defined below), will be sufficient to accomplish the discharge and final payment of such Refunded Bonds on their Redemption Date. Funds for the payment of the Refunded Bonds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") and used to purchase securities authorized by Section 1207.062, Texas Government Code and the orders authorizing such Refunded Bonds (the "Defeasance Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Frost CPA LLC, in conjunction with Public Finance Partners LLC (together, the "Verification Agent"), will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with uninvested funds in the Escrow Fund, if any, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their Redemption Date. See "OTHER INFORMATION - VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS." Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds.

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

* Preliminary, subject to change.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated September 1, 2026. The Bonds will accrue interest from the Delivery Date, and such interest is payable initially on February 15, 2027, and on each August 15 and February 15 thereafter, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or upon prior redemption, upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein.

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

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an order (the "Bond Order") passed by the Board on June 10, 2026, in which the Board delegated to certain officials of the District (each, a "Pricing Officer") authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" (the Bond Order and Pricing Certificate are jointly referred to as the "Order") and, with respect to the portion of the Bonds that are issued for school building construction purposes, an election held by the District on May 7, 2022, and are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order authorizing the issuance of the Bonds.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein. Additionally, the District has applied for and has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

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 for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed in "APPENDIX D - "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

MANDATORY SINKING FUND REDEMPTION . . . If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order and as further set forth in the final Official Statement.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to 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 SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed.

DTC NOTICES . . . 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 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 or 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 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 "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein.

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 the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment or (2) Government Securities that have been certified by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or another qualified third party to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, 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 Government Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government 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 "Government Securities" means: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds. The Pricing Officer may restrict such eligible securities and obligations in connection with the sale of the Bonds. In the event the Pricing Officer restricts such eligible securities and obligations, the final Official Statement will reflect the new authorized Government Securities.

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 Government Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the 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. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to take any other action amending the terms of the Bonds are extinguished.

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

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

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("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 and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject

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

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

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

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

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

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

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (the "Paying Agent/Registrar"). In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a commercial bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or redemption, upon their presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of the principal and interest on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System."

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer or exchange of Bonds or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

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

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

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. 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. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity pursuant to Chapter 1371. As a result, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 creditor's rights 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity. See "APPENDIX D - 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.

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

Sources of Funds	
Par Amount of the Bonds	\$ -
Net Original Issue Premium	-
Total Sources of Funds	<u>\$ -</u>
Uses of Funds	
Deposit to Project Fund	\$ -
Deposit to Escrow Fund	-
Costs of Issuance and Underwriters Discount	-
Deposit to Debt Service Fund	-
Total Uses of Funds	<u>\$ -</u>

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

CURRENT LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM . . . On July 22, 2026, Midland Independent School District filed a suit in a district court of Travis County, Texas, styled *Midland Independent School District, et al. v. Mike Morath, Commissioner of Education, et al.* (Cause No. TBD), against Mike Morath, in his official capacity as Commissioner of Education, and the State of Texas ("*Morath II*"). The suit is an original action for declaratory judgment and challenges the constitutionality of the Finance System.

The District is not a party to this litigation. The District can make no representations or predictions concerning the outcome of this litigation, how the State Legislature may respond to such litigation, or the effect, if any, that this litigation or future legislation may have on the Finance System, or on the District's financial condition, revenues, or operations. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" herein.

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

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

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

2025 LEGISLATIVE SESSION

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

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

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. Such distinctions are discussed under the subcaption "- Local Revenue Level in Excess of Entitlement" herein.

State Compression Percentage. The "State Compression Percentage" or "SCP" is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The SCP is the lesser of three alternative calculations: (i) 93% or a lower percentage set by appropriation for a school year; (ii) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum

SCP is 93%. For the State fiscal year ending in 2026, the SCP is set at 63.22%. For the State fiscal year ending in 2027, the SCP is set at 62.54%.

Maximum Compressed Tax Rate. The “Maximum Compressed Tax Rate” or 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 (described below) to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the “State Compression Percentage” (as discussed above) multiplied by \$1.00; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is set to 90% of such other school district's MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2025 Legislative Sessions, the Legislature took action to reduce the maximum MCR for the 2025-2026 school year, establishing \$0.6322 as the maximum rate and \$0.5689 as the floor. The MCR for the 2026-2027 school year is \$0.6254 and the floor is \$0.5628.

In calculating and making available school districts' MCRs for the 2025-2026 school year, the TEA calculated and made 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, (1) the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution was increased 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 and the disabled under Section 1-b(c), Article VIII, Texas Constitution was increased from \$10,000 to \$60,000. Both constitutional amendments took effect for the tax year beginning January 1, 2025.

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

Enrichment Tax Rate. The Enrichment Tax Rate is the number of cents a school district levies for M&O in excess of the Tier One Tax Rate, up to an additional \$0.17. The Enrichment Tax Rate is divided into two components: (i) “Golden Pennies” which are the first \$0.08 of tax effort in excess of a school district's Tier One Tax Rate; and (ii) “Copper Pennies” which are the next \$0.09 in excess of a school district's Tier One Tax Rate plus Golden Pennies. School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS - Public Hearing and Voter Approval Tax Rate.” However, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for such year. 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 (see “– Local Revenue Level In Excess of Entitlement”), and in some instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein), 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.

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 Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

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

The 2026-2027 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 then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the school district's Basic Allotment, is a school district's measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

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

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

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

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

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

Tax Rate and Funding Equity. The 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, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue 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," below. 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 Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Commissioner of the district's election to pay through a lump sum not later than March 15, 2026.

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the 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.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2026-2027 fiscal year, the District was designated as an "excess local revenue" district by the TEA. Accordingly, the District is required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue that exceeds the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by exercising one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should continue to exceed the maximum permitted value in future school years, it may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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 collective responsibility of the Denton Central Appraisal District and Wise County Appraisal District (each, an "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property.

State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

Unless extended by future legislation, through December 31, 2026, an appraisal district may only increase the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.32 million (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% 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 (collectively, the "Appraisal Cap"). The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

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

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

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

PERSONAL PROPERTY. . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Beginning with the 2026 tax year, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and

Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

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

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

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

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

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

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

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

still in the process of reviewing Chapter 403 and cannot make any representations as to what impact, if any, Chapter 403 will have on its finances or operations.

For a discussion of how the various exemptions described above are applied by the District, see "TAX RATE LIMITATIONS – District Application of Tax Code" herein.

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

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

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

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

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

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

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

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

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on February 12, 2000, in accordance with the provisions of Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code), as amended.

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

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are being issued in part as new debt for school building purposes pursuant to Chapter 45 of the Texas Education Code and, therefore, are subject to the 50-cent Test. The District has not used projected future taxable values or state financial 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, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district's current I&S tax rate. A school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

The governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase

to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

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

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

The District has not granted a local option, additional exemption for persons who are 65 years of age or older or disabled persons above the amount of the State-mandated exemption.

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

The District does not tax nonbusiness 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 has taken action to continue taxing "goods-in-transit."

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

The District is not currently a participant in any tax abatement or tax limitation agreements.

The District's taxes are collected by the Denton County Tax Assessor-Collector.

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TABLE 1 - ASSESSED VALUATION⁽¹⁾

2025/26 Total Assessed Valuation.....	\$ 3,675,456,903
2025/26 Taxable Assessed Valuation.....	\$ 2,243,544,971
<u>Exemption</u>	
Residential Homestead.....	\$ 404,234,102
Homestead Cap Adjustment.....	87,306,714
Over 65 Exemption	7,724,400
Disabled Persons.....	358,946
Disabled/Deceased Veterans.....	30,290,012
Circuit Breaker	92,362,417
Productivity Loss.....	809,407,229
Other.....	228,112
Total (38.95% of Total Assessed Valuation).....	<u><u>\$ 1,431,911,932</u></u>

(1) Sources: Denton Central Appraisal District and Wise County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved.

TABLE 2 - TAX DEBT OUTSTANDING⁽¹⁾**Unlimited Tax Obligations:**

Unlimited Tax Debt Outstanding (as of December 15, 2025)	\$ 216,105,000
Plus: The Bonds.....	33,915,000 ⁽²⁾
Less: The Refunded Bonds.....	<u>(11,760,000) ⁽²⁾</u>
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$ 238,260,000 ⁽³⁾
Less: Interest & Sinking Fund Balance (as of June 30, 2025).....	<u>12,421,005</u>
NET UNLIMITED TAX DEBT OUTSTANDING.....	<u><u>225,838,995 ⁽³⁾</u></u>

Limited Tax Obligations:

Limited Tax Debt Outstanding (as of December 15, 2025)	\$ 1,258,000 ⁽⁴⁾
NET LIMITED TAX DEBT OUTSTANDING.....	<u><u>1,258,000</u></u>

(1) Excludes interest accreted on outstanding capital appreciation bonds.

(2) Preliminary; subject to change.

(3) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

(4) Limited tax obligations are payable from the District's Maintenance & Operations tax rate (see "Table 15 – Loans Payable" and "Table 16 – Limited Tax Debt Service Requirements").

2025 Estimated Population	13,629	Per Capita Total Assessed Valuation	\$ 269,679
2025/26 Enrollment	2,609	Per Capita Taxable Assessed Valuation	\$ 164,616
Area (square miles)	101.00	Per Capita Total Unlimited Tax Debt	\$ 17,482

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TABLE 3 - ESTIMATED GENERAL OVERLAPPING DEBT STATEMENT

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

Taxing Body	Gross Dollar Amount⁽¹⁾	As of	Percent Overlap	Dollar Overlap
Denton County	\$ 750,315,000	05/31/26	1.19%	\$ 8,928,749
Denton Co MUD # 9	7,485,000	05/31/26	100.00%	7,485,000
Denton Co MUD # 16	8,350,000	05/31/26	100.00%	8,350,000
Denton, City of	1,456,670,000	05/31/26	0.49%	7,137,683
Big Sky MUD	10,165,000	05/31/26	100.00%	10,165,000
Krum, City of	39,705,000	05/31/26	100.00%	39,705,000
Wise County	-	05/31/26	0.06%	-
Krum ISD	\$ 238,260,000 ⁽²⁾	05/31/26	100%	\$ 238,260,000
Total Direct and Overlapping Debt				\$ 320,031,432
Ratio of Direct Debt to Taxable Assessed Valuation.....				10.62%
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation.....				14.26%
Ratio of Direct and Overlapping Debt to Total Assessed Valuation				8.71%
Per Capita Direct and Overlapping Debt.....				\$ 30,332

(1) Excludes interest accreted on outstanding capital appreciation bonds.

(2) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change. Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 2 - Tax Debt Outstanding," "Table 15 - Loans Payable" and "Table 16 - Limited Tax Debt Service Requirements").

TABLE 4 - 2025/26 TOTAL TAX RATES OF OVERLAPPING ENTITIES

Denton County	\$ 0.185938
Denton, City of	0.595420
Big Sky MUD	1.650000
Denton Co MUD # 9	0.840000
Krum, City of	0.661365
Wise County	0.217500

Source: Denton Central Appraisal District and Wise County Appraisal District.

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TABLE 5 - PROPERTY TAX RATES AND COLLECTIONS

Tax Year	Taxable Assessed		Percent Collections ⁽¹⁾		Fiscal Year Ended
	Valuation	Tax Rate	Current	Total	
2021	\$ 1,110,674,831	\$ 1.34493	98.84%	100.02%	6/30/2022
2022	1,429,867,160	1.41750	98.63%	100.15%	6/30/2023
2023	1,773,012,418	1.23210	98.68%	99.51%	6/30/2024
2024	1,993,855,971	1.22980	96.64%	96.60%	6/30/2025
2025	2,243,544,971	1.19520	94.54%	96.93%	6/30/2026
	Five Year Average.....		97.47%	98.64%	

Source: District's audited financial statements and the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved .

(1) Excludes penalties and interest.

TABLE 6 - TAX RATE DISTRIBUTION

	<u>2025/26</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>
Local Maintenance ⁽¹⁾	0.72060	0.75520	0.75750	0.94290	0.96030
Interest & Sinking	<u>0.47460</u>	<u>0.47460</u>	<u>0.47460</u>	<u>0.47460</u>	<u>0.38463</u>
Total	<u>1.19520</u>	<u>1.22980</u>	<u>1.23210</u>	<u>1.41750</u>	<u>1.34493</u>

(1) The decrease in the District's M&O Tax Rate for fiscal years ending 2021 through 2025 is the result of House Bill 3, passed during the 2019 Texas Legislative Session, which mandated that all independent school districts reduce their M&O tax rate as prescribed in House Bill 3.

TABLE 7 - VALUATION AND UNLIMITED TAX DEBT HISTORY

Fiscal Year Ended	Taxable Assessed Valuation	Percent Increase/ (Decrease) in Taxable Assessed Valuation Over Prior Year	Principal Amount of Unlimited Tax Debt Outstanding ⁽¹⁾⁽²⁾	Ratio of Unlimited Tax Debt to Taxable Assessed Valuation ⁽¹⁾⁽²⁾
6/30/2022	\$ 1,110,674,831	15.65%	\$ 29,532,189	2.66%
6/30/2023	1,429,867,160	28.74%	44,683,314	3.12%
6/30/2024	1,773,012,418	24.00%	129,465,000	7.30%
6/30/2025	1,993,855,971	12.46%	127,770,000	6.41%
6/30/2026	2,243,544,971	12.52%	235,815,000 ⁽³⁾	10.51% ⁽³⁾

(1) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 – Loans Payable" and "Table 16 – Limited Tax Debt Service Requirements").

(2) Excludes interest accreted on outstanding capital appreciation bonds.

(3) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change. Represents debt service payments from September 1 through August 31. The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

TABLE 8 - HISTORICAL TOP TEN TAXPAYERS

Name of Taxpayer	Type of Property	2025/26	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
Porter Solar LLC	Solar	\$134,846,330	6.01%
BT Noble LLC	Solar	102,672,270	4.58%
Lime Rock Resources IV-A LP	Oil & Gas	77,489,782	3.45%
Oncor Electric Delivery Co.	Utility	38,982,360	1.74%
Key Capture Energy	Battery Storage	38,784,000	1.73%
Krum Estate Villas, LTD	Apartments	23,500,000	1.05%
M/I Homes of DFW LLC	Developer	22,300,028	0.99%
Krum Retreat LP	Apartments	22,282,747	0.99%
BKV Barnett LLC	Oil & Gas	19,191,837	0.86%
MM Meadows 200 LLC	Developer	18,599,410	0.83%
		<u>\$498,648,764</u>	<u>22.23%</u>

Name of Taxpayer	Type of Property	2024/25	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
BT Noble LLC	Solar	\$105,730,600	5.22%
Porter Solar LLC	Solar	53,209,920	2.63%
Lime Rock Resources IV-A LP	Oil & Gas	49,909,335	2.47%
Oncor Electric Delivery Co.	Utility	31,614,640	1.56%
Krum Estate Villas, LTD	Apartments	24,932,482	1.23%
Krum Retreat LP	Apartments	20,169,626	1.00%
AJ Rental Dallas Inc	Equipment Rental	19,815,315	0.98%
Muenster Milling Company LLC	Feed Manufacturer	18,788,179	0.93%
Fisher59 Properties LLC	Beverage Distribution	17,527,514	0.87%
BKV Barnett LLC	Oil & Gas	15,673,677	0.77%
		<u>\$357,371,288</u>	<u>17.65%</u>

Name of Taxpayer	Type of Property	2023/24	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
BT Noble LLC	Solar	\$123,367,330	6.96%
Lime Rock Resources IV-A LP	Oil & Gas	49,878,166	2.81%
Porter Solar LLC	Solar	41,074,090	2.32%
BKV Barnett LLC	Oil & Gas	38,415,207	2.17%
Oncor Electric Delivery Co.	Utility	28,076,562	1.58%
Krum Estate Villas, LTD	Apartments	24,432,482	1.38%
Bedrock Production LLC	Oil & Gas	23,659,230	1.33%
LGI Homes - Texas LLC	Real Estate	20,032,816	1.13%
Fisher59 Properties LLC	Beverage Distribution	17,789,187	1.00%
Krum Estate Villas, LTD	Apartments	13,225,838	0.75%
		<u>\$379,950,908</u>	<u>21.43%</u>

- (1) As shown herein, two of the ten largest taxpayers in the District are concentrated in the petroleum drilling industry and represent approximately 4.31% of the taxable assessed valuation of the District from year 2025/26. Additionally, solar energy represents approximately 10.59% of the taxable assessed valuation. Both oil/gas prices and solar-related valuations in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. As a result, the District's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District's bonds, may be subject to volatility in future years. In addition, under State law, the District is generally permitted to levy debt service taxes in amounts sufficient to cover debt payments coming due during the tax year. As a result, the District may not have sufficient reserves available in its debt service fund in the event that a significant taxpayer should experience financial difficulties and be unable to timely pay taxes as they come due. The District has not had a history of being unable to collect current taxes to fund its operations.

TABLE 9 - CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	2025/26	2024/25	2023/24	2022/23	2021/22
Real Property:					
Single-Family Residential	\$ 1,380,780,483	\$ 1,298,042,154	\$ 1,216,899,784	\$ 885,881,655	\$ 660,256,488
Multi-Family Residential	57,059,228	56,277,696	48,924,274	30,657,816	25,887,742
Vacant Lots/Tracts	53,147,637	30,811,537	25,191,779	26,089,941	26,686,923
Acreage (Land Only)	823,073,303	737,633,067	726,140,075	438,424,192	281,511,167
Farm and Ranch Improvements	423,955,574	395,325,421	391,957,129	297,128,076	207,659,555
Commercial and Industrial	287,056,016	270,971,078	124,390,300	93,701,193	78,737,698
Minerals, Oil and Gas	234,919,603	133,444,537	179,291,683	196,930,566	101,914,302
Inventory	82,865,970	24,557,038	13,960,020	-	14,201,259
Tangible Personal Property:					
Business	57,563,127	132,569,989	209,630,743	76,411,898	38,382,223
Other	178,942,977	4,149,685	2,884,813	20,865,796	2,144,558
Real & Tangible Personal Property:					
Utilities	96,092,985	88,739,823	83,308,201	74,793,903	76,424,360
Total Assessed Valuation	\$ 3,675,456,903	\$ 3,172,522,025	\$ 3,022,578,801	\$ 2,140,885,036	\$ 1,513,806,275
Less Exemptions:					
Residential Homestead	\$ 404,234,102	\$ 276,864,119	\$ 243,130,994	\$ 92,474,355	\$ 57,095,360
Homestead Cap Adjustment	87,306,714	93,140,993	146,303,747	94,124,077	12,463,923
Over 65 Exemption	7,724,400	7,617,445	6,866,829	7,163,062	7,008,827
Disabled Persons	358,946	328,650	352,808	330,000	370,000
Disabled/Deceased Veterans	30,290,012	24,357,074	17,329,232	11,519,909	10,589,872
Freeport	-	527,055	-	-	-
Circuit Breaker	92,362,417	23,522,520	-	-	-
Productivity Loss	809,407,229	721,846,799	714,536,181	423,854,368	268,690,803
Other	228,112	8,200	-	1,321	1,204
Adjustments	-	30,453,199	121,046,592	81,550,784	46,911,455
Total Exemptions	\$ 1,431,911,932	\$ 1,178,666,054	\$ 1,249,566,383	\$ 711,017,876	\$ 403,131,444
Taxable Assessed Valuation *	\$ 2,243,544,971	\$ 1,993,855,971	\$ 1,773,012,418	\$ 1,429,867,160	\$ 1,110,674,831

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

* Net taxable assessed values, with the exception of Fiscal Year Ending in 2026, are as reported in the District's comprehensive annual financial report.

The increase in total exemptions reflects, primarily, the increase in the residential homestead exemption from \$100,000 to \$140,000 beginning with the 2025 tax year, which increased the District's homestead exemption amount from \$276,864,119 during the 2024 tax year to \$404,234,102 for the 2025 tax year.

TABLE 10 - PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY

<u>Property Use Category</u>	<u>2025/26</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>
Real Property:					
Single-Family Residential	37.57%	40.92%	40.26%	41.38%	43.62%
Multi-Family Residential	1.55%	1.77%	1.62%	1.43%	1.71%
Vacant Lots/Tracts	1.45%	0.97%	0.83%	1.22%	1.76%
Acreage (Land Only)	22.39%	23.25%	24.02%	20.48%	18.60%
Farm and Ranch Improvements	11.53%	12.46%	12.97%	13.88%	13.72%
Commercial and Industrial	7.81%	8.54%	4.12%	4.38%	5.20%
Minerals, Oil and Gas	6.39%	4.21%	5.93%	9.20%	6.73%
Inventory	2.25%	0.77%	0.46%	0.00%	0.94%
Tangible Personal Property:					
Business	1.57%	4.18%	6.94%	3.57%	2.54%
Other	4.87%	0.13%	0.10%	0.97%	0.14%
Real & Tangible Personal Property:					
Utilities	<u>2.61%</u>	<u>2.80%</u>	<u>2.76%</u>	<u>3.49%</u>	<u>5.05%</u>
Total Assessed Valuation	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Source: Denton Central Appraisal District and Wise County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved.

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DEBT INFORMATION

TABLE 11 - OUTSTANDING UNLIMITED TAX DEBT SERVICE⁽¹⁾

Year ⁽²⁾	Outstanding Debt ⁽³⁾			The Bonds ⁽⁴⁾			Total Debt Service	Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 2,445,000	\$ 9,731,715	\$ 12,176,715	\$ -	\$ -	\$ -	\$ 12,176,715	
2027	1,120,000	9,313,307	10,433,307	1,370,000	1,620,759	2,990,759	13,424,066	
2028	2,195,000	9,266,470	11,461,470	1,070,000	1,637,563	2,707,563	14,169,032	
2029	2,580,000	9,168,630	11,748,630	1,120,000	1,584,063	2,704,063	14,452,692	
2030	2,695,000	9,051,046	11,746,046	1,675,000	1,528,063	3,203,063	14,949,108	6.83%
2031	3,595,000	8,927,912	12,522,912	1,245,000	1,444,313	2,689,313	15,212,224	
2032	3,745,000	8,787,009	12,532,009	1,295,000	1,382,063	2,677,063	15,209,072	
2033	3,905,000	8,638,741	12,543,741	1,355,000	1,317,313	2,672,313	15,216,054	
2034	5,045,000	8,482,315	13,527,315	445,000	1,249,563	1,694,563	15,221,878	
2035	3,930,000	8,307,925	12,237,925	1,780,000	1,227,313	3,007,313	15,245,238	17.88%
2036	3,775,000	8,142,556	11,917,556	2,155,000	1,138,313	3,293,313	15,210,869	
2037	5,690,000	7,954,713	13,644,713	490,000	1,030,563	1,520,563	15,165,275	
2038	5,960,000	7,681,763	13,641,763	515,000	1,006,063	1,521,063	15,162,825	
2039	6,245,000	7,395,663	13,640,663	545,000	980,313	1,525,313	15,165,975	
2040	6,555,000	7,086,650	13,641,650	570,000	953,063	1,523,063	15,164,713	31.52%
2041	6,880,000	6,762,238	13,642,238	600,000	924,563	1,524,563	15,166,800	
2042	7,220,000	6,421,613	13,641,613	630,000	894,563	1,524,563	15,166,175	
2043	7,575,000	6,064,063	13,639,063	660,000	863,063	1,523,063	15,162,125	
2044	7,965,000	5,678,425	13,643,425	690,000	830,063	1,520,063	15,163,488	
2045	8,330,000	5,312,675	13,642,675	725,000	795,563	1,520,563	15,163,238	48.85%
2046	8,715,000	4,929,838	13,644,838	765,000	759,313	1,524,313	15,169,150	
2047	9,115,000	4,529,050	13,644,050	800,000	721,063	1,521,063	15,165,113	
2048	9,535,000	4,109,538	13,644,538	840,000	681,063	1,521,063	15,165,600	
2049	9,955,000	3,683,638	13,638,638	885,000	639,063	1,524,063	15,162,700	
2050	10,405,000	3,238,625	13,643,625	930,000	594,813	1,524,813	15,168,438	70.65%
2051	10,880,000	2,760,550	13,640,550	975,000	548,313	1,523,313	15,163,863	
2052	11,375,000	2,270,750	13,645,750	1,025,000	499,563	1,524,563	15,170,313	
2053	10,270,000	1,758,488	12,028,488	1,075,000	448,313	1,523,313	13,551,800	
2054	10,745,000	1,287,700	12,032,700	1,130,000	394,563	1,524,563	13,557,263	
2055	5,045,000	795,000	5,840,000	1,185,000	338,063	1,523,063	7,363,063	93.19%
2056	5,295,000	542,750	5,837,750	1,245,000	278,813	1,523,813	7,361,563	
2057	5,560,000	278,000	5,838,000	1,305,000	216,563	1,521,563	7,359,563	
2058				1,375,000	148,050	1,523,050	1,523,050	
2059				1,445,000	75,863	1,520,863	1,520,863	100.00%
	<u>\$ 204,345,000</u>	<u>\$ 188,359,349</u>	<u>\$ 392,704,349</u>	<u>\$ 33,915,000</u>	<u>\$ 28,750,547</u>	<u>\$ 62,665,547</u>	<u>\$455,369,896</u>	

- (1) Excludes limited tax debt. See “Table 2 - Tax Debt Outstanding,” “Table 15 – Loans Payable” and “Table 16 – Limited Tax Debt Service Requirements” herein.
- (2) Represents debt service payments from September 1 through August 31. The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.
- (3) Excludes the Refunded Bonds. Preliminary, subject to change.
- (4) Preliminary, subject to change.

TABLE 12 - INTEREST AND SINKING FUND BUDGET PROJECTIONS⁽¹⁾

Tax Supported Debt Service Requirements, Fiscal Year Ending 6/30/2026	\$12,176,715 ⁽²⁾
Interest and Sinking Fund Balance, as of 6/30/2025	12,421,005
Calculated Interest and Sinking Fund Tax Collections Fiscal Year Ending 6/30/2026	10,647,864
	<u>\$23,068,869</u>
Projected Interest and Sinking Fund Balance, 6/30/2026	<u>\$10,892,154</u>

- (1) The District's fiscal year ends on June 30. Due to the timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.
- (2) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 13 - AUTHORIZED BUT UNISSUED BONDS

Purpose	Date Authorized	Amount Authorized	Amount Issued to Date	Amount Being Issued	Unissued Balance
School Building	5/7/2022	\$ 244,700,000	\$ 198,500,000	\$ 23,000,000 ⁽¹⁾	\$ 23,200,000

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

The District does not anticipate the issuance of additional unlimited tax bonds within the next 12 months.

In addition to unlimited tax bonds, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from state appropriations and surplus maintenance taxes.

TABLE 14 - TAX ADEQUACY – UNLIMITED TAX DEBT SERVICE REQUIREMENTS ⁽¹⁾⁽²⁾

2026 Principal and Interest Requirements	\$ 12,176,715
\$.5483 Tax Rate at 99% Collection Produces	\$ 12,178,344 ⁽³⁾
Average Annual Principal and Interest Requirements, 2026-2059.....	\$ 13,393,232
\$.6030 Tax Rate at 99% Collection Produces	\$ 13,393,290 ⁽³⁾
Maximum Annual Principal and Interest Requirements, 2035	\$ 15,245,238
\$.6864 Tax Rate at 99% Collection Produces	\$ 15,245,696 ⁽³⁾

- (1) The District's fiscal year ends on June 30. Due to the timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31. Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 – Loans Payable" and "Table 16 – Limited Tax Debt Service Requirements")
- (2) Includes the Bonds and excludes the Refunded Bonds.
- (3) Calculations are based on 2025/26 taxable assessed valuation of \$2,243,544,971.

TABLE 15 - LOANS PAYABLE

The District has no loans outstanding as of November 30, 2025

TABLE 16 - LIMITED TAX DEBT SERVICE REQUIREMENTS ⁽¹⁾⁽²⁾

Year ⁽²⁾	Principal	Interest	Total Debt Service Requirements	% of Principal Retired
2026	\$ 240,000	\$ 30,947	\$ 270,947	
2027	245,000	25,043	270,043	
2028	251,000	19,016	270,016	
2029	258,000	12,841	270,841	
2030	264,000	6,494	270,494	100.00%
	<u>\$ 1,258,000</u>	<u>\$ 94,341</u>	<u>\$ 1,352,341</u>	

- (1) Payable from the District's Maintenance & Operations tax rate.
- (2) The District's fiscal year ends on June 30. Due to the timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

TABLE 17 - TAX ADEQUACY - LIMITED TAX DEBT SERVICE REQUIREMENTS⁽¹⁾⁽²⁾

2026 Principal and Interest Requirements	\$ 270,947
\$.0122 Tax Rate at 99% Collection Produces	\$ 270,975 ⁽³⁾
Average Annual Principal and Interest Requirements, 2026-2030.....	\$ 270,468
\$.0122 Tax Rate at 99% Collection Produces	\$ 270,975 ⁽³⁾
Maximum Annual Principal and Interest Requirements, 2026	\$ 270,947
\$.0122 Tax Rate at 99% Collection Produces	\$ 270,975 ⁽³⁾

(1) Payable from the District's Maintenance & Operations tax rate.

(2) The District's fiscal year ends on June 30. Due to the timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

(3) Calculations are based on 2025/26 taxable assessed valuation of \$2,243,544,971.

FINANCIAL INFORMATION

TABLE 18 - COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Year Ended June 30				
	2025	2024	2023	2022	2021
<u>Assets</u>					
Cash & Cash Equivalents	\$ 9,580,060	\$ 10,742,047	\$ 15,396,650	\$ 11,742,796	\$ 10,569,431
Property Taxes - Delinquent	295,195	387,504	387,500	307,823	428,942
Allowance for Uncollected Taxes (Credit)	(20,663)	(27,125)	(27,124)	(21,548)	(30,026)
Receivables from Other Governments	3,738,867	2,869,981	22,555	1,006,592	2,210,438
Other Receivables	15,422	19,236	32,865	22,715	-
Prepayments	171,789	140,911	148,035	90,671	75,094
Total Assets	\$ 13,780,670	\$ 14,132,554	\$ 15,960,481	\$ 13,149,049	\$ 13,253,879
<u>Liabilities, Deferred Inflows of Resources and Fund Balances:</u>					
<i>Liabilities</i>					
Accounts Payable	\$ 74,906	\$ 96,681	\$ 96,820	\$ 87,511	\$ 96,659
Payroll Deductions and Withholdings Payable	205,617	(532)	(112)	169,292	156,143
Accrued Wages Payable	498,628	980,484	830,893	778,188	689,596
Due to Other Governments	200	-	2,571,077	-	-
Accrued Expenditures	327,496	344,322	304,179	297,870	336,129
Unearned Revenues	-	-	17,500	-	-
Total Liabilities	\$ 1,106,847	\$ 1,420,955	\$ 3,820,357	\$ 1,332,861	\$ 1,278,527
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenues - Property Taxes	274,532	360,379	360,376	286,275	398,916
Total Deferred Inflows of Resources	\$ 274,532	\$ 360,379	\$ 360,376	\$ 286,275	\$ 398,916
<i>Fund Balances</i>					
Nonspendable Fund Balance:					
Prepaid Items	\$ 171,789	\$ 140,911	\$ 148,035	\$ 90,671	\$ 75,094
Unassigned Fund Balance:	12,227,502	12,210,309	11,631,713	11,439,242	11,501,342
Total Fund Balances	\$ 12,399,291	\$ 12,351,220	\$ 11,779,748	\$ 11,529,913	\$ 11,576,436
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,780,670	\$ 14,132,554	\$ 15,960,481	\$ 13,149,049	\$ 13,253,879

TABLE 19 – COMPARATIVE STATEMENT OF GENERAL FUND RESERVES AND EXPENDITURES

	Fiscal Years Ended June 30,				
	2025	2024	2023	2022	2021
Revenues:					
Local and Intermediate Sources	\$ 15,359,240	\$ 15,097,380	\$ 14,948,005	\$ 11,544,066	\$ 10,580,927
State Program Revenue	13,214,094	13,744,325	9,984,411	11,349,597	11,504,978
Federal Program Revenue	120,344	180,406	537,872	785,653	176,809
Total Revenues	<u>\$ 28,693,678</u>	<u>\$ 29,022,111</u>	<u>\$ 25,470,288</u>	<u>\$ 23,679,316</u>	<u>\$ 22,262,714</u>
Expenditures:					
Instruction	\$ 14,633,959	\$ 13,921,819	\$ 12,607,573	\$ 12,197,607	\$ 11,945,825
Instructional Resources and Media Services	177,307	245,489	219,026	241,830	246,546
Curriculum and Staff Development	317,210	159,635	148,264	112,766	85,315
Instructional Leadership	395,767	391,699	396,639	281,357	286,684
School Leadership	1,950,157	1,859,197	1,688,048	1,583,072	1,557,102
Guidance, Counseling and Evaluation Services	635,796	615,934	277,678	174,933	550,648
Social Work Services	268	-	-	-	-
Health Services	384,666	360,230	334,753	263,788	213,688
Student (Pupil) Transportation	1,539,785	1,585,712	1,509,657	1,014,666	1,026,516
Food Services	8,916	9,240	9,091	8,657	6,506
Cocurricular/Extracurricular Activities	1,035,503	1,044,461	961,713	1,139,288	758,529
General Administration	1,239,463	1,207,145	1,117,929	1,041,526	1,002,021
Plant Maintenance and Operations	3,537,310	3,740,225	3,213,962	3,050,579	2,807,633
Security and Monitoring Services	447,539	355,601	388,374	233,489	196,781
Data Processing Services	575,013	623,370	612,356	579,434	700,534
Community Services	393,402	503,028	427,785	398,683	280,158
Debt Service	267,508	268,055	267,467	267,744	267,897
Facilities Acquisition and Construction	-	133,889	-	176,788	-
Intergovernmental Charges	1,950,755	1,425,910	1,040,138	959,632	862,822
Total Expenditures	<u>\$ 29,490,324</u>	<u>\$ 28,450,639</u>	<u>\$ 25,220,453</u>	<u>\$ 23,725,839</u>	<u>\$ 22,795,205</u>
Other Resources and (Uses) & Special Items	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (56,890)</u>
Excess (Deficiency) of					
Revenues Over Expenditures	\$ (796,646)	\$ 571,472	\$ 249,835	\$ (46,523)	\$ (589,381)
Beginning Fund Balance	\$ 12,351,220	\$ 11,779,748	\$ 11,529,913	\$ 11,576,436	\$ 12,165,817
Transfers In	844,717	-	-	-	-
Ending Fund Balance ⁽¹⁾	<u>\$ 12,399,291</u>	<u>\$ 12,351,220</u>	<u>\$ 11,779,748</u>	<u>\$ 11,529,913</u>	<u>\$ 11,576,436</u>

(1) Financial operations for all governmental activities in accordance with GASB Statement No. 34.

TABLE 20 – CHANGES IN NET POSITION ⁽¹⁾

	Fiscal Years Ended June 30,				
	2025	2024	2023	2022	2021
<u>Program Revenues:</u>					
Charges for Services	\$ 924,439	\$ 1,121,379	\$ 1,182,388	\$ 739,690	\$ 606,445
Operating Grants & Contributions	5,001,001	4,136,812	3,946,943	5,528,333	2,975,457
Maintenance & Operations Taxes	14,191,833	13,481,260	13,703,496	10,653,899	10,077,312
Debt Service Taxes	8,917,740	8,426,562	6,861,685	4,270,029	2,870,302
State Aid - Formula Grants	11,576,493	12,000,688	8,556,374	10,039,710	10,318,570
Investment Earnings	5,246,224	3,161,241	1,439,845	158,017	62,844
Miscellaneous	85,467	666,613	180,451	171,702	130,202
Extraordinary Item - Resource	-	2,512,251	-	-	-
Total Revenues	<u>\$45,943,197</u>	<u>\$45,506,806</u>	<u>\$35,871,182</u>	<u>\$31,561,380</u>	<u>\$27,041,132</u>
<u>Expenses:</u>					
Instruction	\$ 16,068,443	\$ 14,832,669	\$ 14,065,795	\$ 13,770,131	\$ 13,730,081
Instructional Resources and Media Services	132,232	256,714	229,310	250,550	263,321
Curriculum & Staff Development	350,186	219,854	175,924	141,147	108,490
Instructional Leadership	420,307	416,919	399,325	362,661	309,229
School Leadership	2,000,937	1,922,401	1,731,810	1,601,222	1,660,312
Guidance, Counseling and Evaluation Services	712,750	649,007	772,195	629,631	574,803
Social Work Services	42,353	-	-	-	-
Health Services	387,934	363,829	336,365	262,437	225,291
Student (Pupil) Transportation	1,408,073	1,522,897	1,321,027	1,209,975	1,058,325
Food Services	1,310,797	1,303,089	1,090,610	1,249,077	1,072,667
Co-curricular/Extracurricular Activities	1,887,641	1,861,475	1,515,999	1,861,645	1,511,844
General Administration	1,321,742	1,273,095	1,178,345	1,087,002	1,119,605
Facilities Maintenance and Operations	4,149,260	3,711,634	3,056,226	3,102,200	2,796,294
Security & Monitoring Services	671,875	500,335	312,550	216,581	204,953
Data Processing Services	579,284	1,088,400	1,177,116	620,963	1,043,246
Community Services	397,041	507,398	435,074	397,620	295,611
Debt Service	5,318,573	1,885,016	1,896,451	1,036,890	669,993
Payments to Fiscal Agent/Member Districts of SSA	1,790,187	790,113	935,620	872,954	769,687
Capital Outlay	-	-	14,291	-	-
Payments to Juvenile Justice Alternative Ed. Program	-	1,288,695	-	5,742	16,335
Other Intergovernmental Charges	160,568	137,215	104,518	80,936	76,800
Total Expenses	<u>\$ 39,110,183</u>	<u>\$ 34,530,755</u>	<u>\$ 30,748,551</u>	<u>\$ 28,759,364</u>	<u>\$ 27,506,887</u>
Increase (Decrease) in Net Position	6,833,014	10,976,051	5,122,631	2,802,016	(465,755)
Beginning Net Position	28,361,115	17,385,064	12,262,433	9,460,417	9,926,172
Prior Period Adjustments ⁽²⁾	(1,242,123)	-	-	-	-
Ending Net Position	<u>\$ 33,952,006</u>	<u>\$ 28,361,115</u>	<u>\$ 17,385,064</u>	<u>\$ 12,262,433</u>	<u>\$ 9,460,417</u>

(1) Financial operations for all governmental activities in accordance with GASB Statement No. 34.

(2) The implementation of GASB 101, a new accounting standard, as well as adjustments related to previously matured debt, resulted in restating beginning net position in the District's governmental activities, for more information see "FINANCIAL INFORMATION - Financial Policies - Change in Accounting Principle" herein.

FINANCIAL POLICIES

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The District considers property taxes as available if they are collected within 60 days after year-end, and a 60-day period is also used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due. The District records its proportionate share of the net pension liability of the Teacher Retirement System of Texas (TRS). The fiduciary net position 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 District records its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas (TRS) TRS-Care Plan. The fiduciary net position has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account. The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool’s short-term investments are those with remaining maturities of up to ninety days.

Budgetary Procedures . . . The official school budget was prepared for adoption for required Governmental Fund Types prior to June 20 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. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year’s budget. The District had no material encumbrances outstanding at June 30, 2025.

CHANGE

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N ACCOUNTING PRINCIPLE

In June 2022, GASB issued new accounting pronouncement, GASB Statement No. 101, “Compensated Absences,” which was effective for fiscal years beginning after December 15, 2023. In compliance with this new accounting pronouncement, a liability has been recognized in the District’s statements of net position for carry-forward compensated absences more likely than not to be used by or paid to employees in future periods. The measurement of the liability includes salary-related payments that are directly and incrementally associated with the leave. Texas state law provides a state minimum personal leave program consisting of five days per year personal leave with no limit on accumulation and transferability among Texas school districts; school districts can provide additional personal leave beyond this minimum. The liability for compensated absences in governmental fund financial statements is the amount, if material, that is to be liquidated with expendable available financial resources. This new accounting pronouncement does not apply to holiday leave or projected effects on defined benefit postemployment liabilities. Under previous accounting rules, a liability for compensated absences would have been recorded only if accumulated benefits were to be paid upon employee termination or retirement.

During the year it was noted that unamortized bond premiums as well as deferred charges on refundings for previously matured and/or refunded bonds (Series 2005, Series 2007, and Series 2012), remained on the government-wide financial statements. All balances related to the bond issuances should have been accounted for during the time of retirement of the bonds.

The implementation of this new accounting standard, as well as the adjustments related to previously matured debt, resulted in restating beginning net position in the District's governmental activities as follows:

Net position as of 06/30/24, as previously reported	\$ 28,361,115
Prior period adjustment – compensated absences	(364,837)
Prior period adjustment – deferred charge on refunding	(219,484)
Prior period adjustment – unamortized bond premium	(657,802)
Net position as of 06/30/24, as restated	\$ 27,118,992

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "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 investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's 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 Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office 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) 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 of Texas 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 of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) 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 (13) through (15) below, 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) 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; (13) 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; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) and that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; (15) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either: (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA. 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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.

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

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

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

ADDITIONAL PROVISIONS . . . Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the

District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the District that are not made through accounts of other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

CURRENT INVESTMENTS ⁽¹⁾

As of June 18, 2026, the District's investable funds were invested in the following categories:

<u>Investment Description</u>	<u>Market Value</u>	<u>% of Portfolio</u>
TexSTAR	\$117,430,215	79.25%
Checking	30,752,912	20.75%
Totals	<u>\$ 148,183,127</u>	<u>100.00%</u>

EMPLOYEES' BENEFIT PLANS

PENSION FUND...Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 8.0%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning District's pension plan, see Appendix B, "Excerpts from the Krum Independent School District Annual Financial Report" - Note 9.

RETIREE INSURANCE PLAN...In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care"), 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 Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care, see Appendix B, "Excerpts from the Krum Independent School District Annual Financial Report" - Note 10.

OTHER BENEFITS ...During the year ended June 30, 2025, employees of Krum Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$325 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan (TRS Active-Care).

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended June 30, 2025, the contribution made on behalf of the District was \$122,974. The District participates in the Texas Educational Insurance Association Workers Compensation Self-Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$159,241 for the 24-25 fiscal period. Additionally, the District incurred fixed costs of \$51,275 for their share of claims administration, loss control, record keeping, and cost of excess insurance. For more detailed information, see Appendix B, "Excerpts from the Krum Independent School District Annual Financial Report" - Note 14.

TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and

court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds 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 Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States 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.

Bond 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 Bond Counsel, and Bond 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 tax-exempt 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 future 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.

Except as described above, Bond Counsel expresses 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. 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, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

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. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

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

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner

(adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes 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 Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the 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.

CONTINUING DISCLOSURE 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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 20 and in Appendix B, which is the District's annual audited financial report. The District will update and provide the information in the numbered tables ("annual financial information") within six months after the end of each fiscal year ending in and after 2026 and, if not submitted as part of such annual financial information, the District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year ending in and after 2026, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is June 30. Accordingly, the District must provide updated annual financial information included in the above referenced tables by the last day of December in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by the last day of June in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

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

NOTICE OF CERTAIN EVENTS . . . The District shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy,

insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. Additionally, the District intends the words used in clauses (15) and (16) of the preceding paragraph and the definition of "financial obligation" in these clauses to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018. The term "Financial Obligation" is defined in the Order as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. Neither the Bonds nor the Order make any provision for debt service reserves or liquidity enhancement or credit enhancement (except with respect to the Permanent School Fund Guarantee). In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Bonds are rated "AAA" S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") and "AAA" by Fitch Ratings, Inc. ("Fitch") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the presently outstanding tax supported debt of the District are rated "AA-" by S&P and "AA-" by Fitch without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either rating company, if in the judgment of either company, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

LITIGATION

The District is not a party to any litigation or other proceeding pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

CYBERSECURITY RISKS

Computer networks and data transmission and collection are vital to the operations of the District. Information technology and infrastructure of the District may be subject to attacks by outside or internal hackers and may be subject to breach by employee error, negligence or malfeasance. An attack or breach could compromise systems and the information stored thereon, result in the loss of confidential or proprietary data and disrupt the operations of the District. To mitigate these risks, the District continuously endeavors to improve the range of control for digital information operations, enhancements to the authentication process, and additional measures toward improving system protection/security posture, including required training for District staff and administration.

WEATHER EVENTS

The District is located in North Texas. Land located in this area is susceptible to high winds and tornadic activity. If a future weather event significantly damaged 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 revenues and/or necessitate an increase the District's tax rate. Texas law allows the District to increase property tax rates without voter approval upon the occurrence of certain disasters such as floods and upon a gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or 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 repair 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other

political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION -- Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, 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 approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. Though it may represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriters. Bond 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 therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "PLAN OF FINANCING," "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee," "Book-Entry-Only System," "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (except for the last sentence of the second paragraph under the subcaption "I&S Tax Rate Limitations"), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the first paragraph thereof) 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 captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. Certain legal matters will be passed upon for the Underwriters by their counsel McCall, Parkhurst & Horton L.L.P., Dallas, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the District, on or before the Delivery Date, its verification report, on which Bond Counsel will rely, indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Defeasance Securities to pay, when due, the principal of and accrued interest on the Refunded Bonds on their Redemption Date.

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

FINANCIAL ADVISOR

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

The Financial Advisor to the District 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of _____. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriters and their affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments. RBC Capital Markets, LLC ("RBCCM"), an underwriter of the Bonds, has entered into a distribution arrangement with its affiliate RBC Securities, Inc. ("RBC Securities") (formerly known as "City National Securities, Inc."). As part of this arrangement, RBCCM may distribute municipal securities to investors through the financial advisor network of RBC Securities. As part of this arrangement, RBCCM may compensate RBC Securities for its selling efforts with respect to the Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

The Pricing Certificate will approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

Pricing Officer
Krum Independent School District

SCHEDULE I**SCHEDULE OF REFUNDED BONDS*****Unlimited Tax Refunding Bonds, Series 2015-A**

Original Dated Date	Original Maturity (8/15)	Interest Rate	Principal Amount			Call Date	Call Price
			Outstanding	Refunded	Unrefunded		
May 15, 2015	2027	4.000%	\$ 665,000	\$ 665,000	\$ -	11/1/2026	100%
	2028	4.000%	695,000	695,000	-	11/1/2026	100%
	2029	4.000%	725,000	725,000	-	11/1/2026	100%
	2030	4.000%	755,000	755,000	-	11/1/2026	100%
			<u>\$ 2,840,000</u>	<u>\$ 2,840,000</u>	<u>\$ -</u>		

Unlimited Tax Refunding Bonds, Series 2015-B

Original Dated Date	Original Maturity (8/15)	Interest Rate	Principal Amount			Call Date	Call Price
			Outstanding	Refunded	Unrefunded		
June 15, 2015	2027	4.000%	\$ 755,000	\$ 755,000	\$ -	11/1/2026	100%
	2028	4.000%	780,000	780,000	-	11/1/2026	100%
	2029	4.000%	815,000	815,000	-	11/1/2026	100%
	2030	4.000%	845,000	845,000	-	11/1/2026	100%
	2031	4.000%	890,000	890,000	-	11/1/2026	100%
			<u>\$ 4,085,000</u>	<u>\$ 4,085,000</u>	<u>\$ -</u>		

Unlimited Tax Refunding Bonds, Series 2016

Original Dated Date	Original Maturity (8/15)	Interest Rates	Principal Amount			Call Date	Call Price
			Outstanding	Refunded	Unrefunded		
April 1, 2016	2032	4.000%	\$ 915,000	\$ 915,000	\$ -	11/1/2026	100%
	2033	4.000%	945,000	945,000	-	11/1/2026	100%
	2035	4.000%	1,320,000	1,320,000	-	11/1/2026	100%
	2036	4.000%	1,655,000	1,655,000	-	11/1/2026	100%
			<u>\$ 4,835,000</u>	<u>\$ 4,835,000</u>	<u>\$ -</u>		

* Preliminary, subject to change.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

THE DISTRICT

Located primarily in Denton County with a small portion in Wise County, the District is an oil and gas and agricultural area of approximately 101 square miles that includes the City of Krum. The district is located 5 miles northwest of the City of Denton, off of U.S. Highway 380.

The District is governed by a seven member Board of Trustees (the “Board”). The members of the Board serve three-year staggered terms with at-large elections being held every year. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates 7 instructional facilities which are fully accredited by the Texas Education Agency. The number and types of instructional facilities are as follows:

<u>Campus</u>	<u>Number of Schools</u>
Early Education Center	1
Intermediate/Elementary Schools	3
Alternative Learning Center	1
Middle Schools	1
High Schools	1
Totals	<u>7</u>

ENROLLMENT HISTORY

<u>Year</u>	<u>Enrollment</u>	<u>Increase/ (Decrease)</u>	<u>Percent Change</u>
2019-20	2,062	13	0.63%
2020-21	2,101	39	1.89%
2021-22	2,217	116	5.52%
2022-23	2,298	81	3.65%
2023-24	2,474	176	7.66%
2024-25	2,584	110	4.45%
2025-26	2,609	25	0.97%

ENROLLMENT BY GRADE

<u>Year</u>	<u>EC</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>
2018-19	N/A	N/A	103	146	139	140	166	159	150	178	168	169	179	141	144	2,049
2019-20	10	51	148	114	151	139	146	175	162	146	185	172	154	175	134	2,062
2020-21	11	58	138	146	121	165	149	151	178	167	156	193	159	149	160	2,101
2021-22	10	87	144	152	166	131	169	154	169	190	177	172	187	160	149	2,217
2022-23	14	100	158	158	153	176	137	175	170	175	196	175	183	167	161	2,298
2023-24	16	94	180	174	183	170	191	163	191	191	199	225	178	173	146	2,474
2024-25	32	109	152	189	191	189	178	198	178	204	194	206	222	168	174	2,584
2025-26	26	109	180	156	194	205	197	191	198	181	196	193	209	205	169	2,609

ENROLLMENT

<u>Staff Information</u>	<u>District Employees</u>	
	<u>Number</u>	<u>Percentage</u>
Teachers, Counselors & Nurses	171	51.04%
Administrators	49	14.63%
Teacher Aides & Secretaries	7	2.09%
Auxiliary Staff	108	32.24%
Total Number of Employees	<u>335</u>	<u>100.00%</u>

During the 2024/2025 school year, entry level teachers without advanced degrees earn \$50,550 annually. Teachers with longevity or advanced degrees can earn \$71,950 annually. All teachers receive life and health insurance benefits worth approximately \$325 monthly.

LOCAL AND AREA

Denton County was created in 1846 from Fannin County and is now part of the Dallas-Fort Worth Metroplex. Alliance airport and the Texas Motor speedway both have a positive impact on employment and recreational spending in the area. The population of Denton County is estimated to be 1,037,646. Industry in the County is varied and includes oil and gas, tourism, and agriculture. The County seat is the City of Denton.

LABOR FORCE ESTIMATES

	Annual Averages					
	2026 ⁽¹⁾	2025	2024	2023	2022	2021
Denton County						
Civilian Labor Force	608,429	607,941	594,996	581,563	556,405	526,040
Total Employment	581,635	585,073	572,903	560,655	538,019	502,502
Unemployment	26,794	22,868	22,093	20,908	18,386	23,538
Percent Unemployment	4.4%	3.8%	3.7%	3.6%	3.3%	4.5%
State of Texas						
Civilian Labor Force	15,904,858	15,883,632	15,608,932	15,217,552	14,741,150	14,319,776
Total Employment	15,203,617	15,218,369	14,971,373	14,608,665	14,159,995	13,512,599
Unemployment	701,241	665,263	637,559	608,887	581,155	807,177
Percent Unemployment	4.4%	4.2%	4.1%	4.0%	3.9%	5.6%

Source: Texas Workforce Commission.

(1) Totals of June 30, 2026.

MAJOR AREA EMPLOYERS

<u>Company</u>	<u>Type of Business</u>	<u>Estimated Employees</u>
University of North Texas	Higher Education	8,891
Lewisville ISD	Education	6,336
Denton ISD	Education	4,331
Northwest ISD	Education	3,677
Peterbilt Motors	Manufacturing	2,000
Denton County	Government	1,987
City of Denton	Government	1,982
Caliber Collision	Auto Repair	1,957
Denton State Supported Living	Residential Care for Disabled	1,146
Texas Women's University	Higher Education	1,077

Source: Denton County, Texas Annual Comprehensive Financial Report.

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MINERAL PRODUCTION

Denton County is a significant oil and gas producer:

Denton County Statewide Onshore Oil/Gas Production Annual Totals, January 2020 - September 2025

Date	Oil (BBL)	Casinghead (MCF)	GW Gas (MCF)	Condensate (BBL)
2020	11,087	276,008	146,501,604	189,258
2021	11,096	163,599	132,004,608	128,791
2022	10,339	156,000	134,736,184	242,750
2023	5,074	76,228	102,788,536	177,514
2024	10,787	168,181	176,447,576	291,534
2025	2,931	43,372	51,513,689	89,870

Source: Railroad Commission of Texas. MCF = thousand cubic feet.

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APPENDIX B

EXCERPTS FROM THE
KRUM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2025

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

KRUM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED JUNE 30, 2025

KRUM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2025

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CERTIFICATE OF BOARD

Krum Independent School District
Name of School District

Denton
County

061-905
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended June 30, 2025, at a meeting of the Board of Trustees of such school district on the 10th day of December, 2025.

Signature of Board Secretary

Signature of Board President

Independent Auditor's Report

Krum Independent School District
Krum, Texas

Opinion

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Krum Independent School 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 Krum Independent School 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 Responsibility 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 general accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Krum Independent School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 12 and the Teacher Retirement System schedules on page 56 through 63 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2025 on our consideration of Krum Independent School District's internal control over financial reporting and on our tests of the 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 Krum Independent School 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 Krum Independent School District's internal control over financial reporting and compliance.

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC
Denton, Texas

December 1, 2025

**KRUM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2025
(UNAUDITED)**

As management of Krum Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2025. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 14.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Krum Independent School District exceeded its liabilities and deferred inflows at the close of the most recent fiscal period by \$33,952,006 (net position). There was no unrestricted net position at June 30, 2025.
- The District's total net position increased by \$6,833,014 during the fiscal year from the result of current year operations.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$95,362,682. \$12,227,502 of this total amount or 12.82% is unassigned and available for use within the District's commitments and policies.
- At the end of the current fiscal period, the fund balance for the general fund was \$12,399,291, an increase of \$48,071 above the previous year balance of \$12,351,220. General fund unassigned fund balance of \$12,227,502 represents 41.46% of current year general fund non-capital expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The District had no proprietary funds at June 30, 2025. The remaining statements, custodial fund statements, provide financial information about activities for which the District acts solely as a custodian or agent for the benefit of those outside of the District. The District has no component units for which it is financially accountable.

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

The combining statements for nonmajor funds contain even more information about the District's individual funds. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the District is better off or worse off as a result of the current fiscal period's activities. The Statement of Net Position includes all the District's assets, deferred inflows and liabilities at the end of the period while the Statement of Activities includes all revenues and expenses generated by the District's operations during the fiscal year. These apply the accrual basis of accounting (the basis used by private sector companies).

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

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

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

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

Business-type activities – The District does not have any programs in which it charges a fee to “customers” to help it cover all or most of the cost of services it provides. The District had no business-type activities during the current fiscal period.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Proprietary funds – The District reports the activities for which it charges users (outside customers) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. Enterprise funds (one category of proprietary funds) are business-type activities reported in government-wide statements but containing more detail and additional information, such as cash flows. During the year ended June 30, 2025, the District had no proprietary funds.

The District as Trustee

Reporting the District's Custodial Responsibilities

The District is the trustee, or custodian, for money raised by student activities. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Fund Net Position on pages 24 and 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In accordance with GASB Statement #34, the following analysis presents both the current year and prior year data and discusses significant changes in the accounts. The analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

A large portion of the District's assets (\$87,871,371 or 45.94 percent) reflects its investment in capital assets (e.g., land, buildings, furniture and equipment). 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, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of the District's governmental activities increased from \$27,118,992 to \$33,952,006 during the fiscal year from the result of current year operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was a deficit of \$3,164,137 at June 30, 2025.

Table I
NET POSITION

	Governmental Activities June 30, 2025	Governmental Activities June 30, 2024	Difference
Current and other assets	\$ 103,386,214	\$ 125,064,470	\$ (21,678,256)
Capital assets	87,871,371	56,983,616	30,887,755
Total assets	191,257,585	182,048,086	9,209,499
Deferred outflows of resources	5,087,576	7,152,300	(2,064,724)
Total assets and deferred outflows of resources	196,345,161	189,200,386	7,144,775
Long-term liabilities	147,670,725	148,519,955	(849,230)
Other liabilities	9,662,370	4,583,892	5,078,478
Total liabilities	157,333,095	153,103,847	4,229,248
Deferred inflows of resources	5,060,060	7,735,424	(2,675,364)
Total liabilities and deferred inflows of resources	162,393,155	160,839,271	1,553,884
Net Position:			
Net investments in capital assets	24,191,817	20,445,713	3,746,104
Restricted	12,924,326	9,923,427	3,000,899
Unrestricted	(3,164,137)	(2,008,025)	(1,156,112)
Total Net Position	\$ 33,952,006	\$ 28,361,115	\$ 5,590,891

Governmental activities. Revenues from governmental activities were \$45,943,197. The cost of all governmental programs and services were \$39,110,183. *Governmental activities* increased net position \$6,833,014 from the result of current year operations.

Property taxes and state foundation aid are the District's chief sources of operating revenues. Adjusted property values at year-end were \$220.8 million (12.46%) higher than year-end values last year.

Table II
CHANGES IN NET POSITION

	Governmental Activities Year Ended June 30, 2025	Governmental Activities Year Ended June 30, 2024	Difference
Revenues:			
Program Revenues:			
Charges for services	\$ 924,439	\$ 1,121,379	\$ (196,940)
Operating grants and contributions	5,001,001	4,136,812	864,189
General Revenues:			
Maintenance and operations taxes	14,191,833	13,481,260	710,573
Debt service taxes	8,917,740	8,426,562	491,178
State aid	11,576,493	12,000,688	(424,195)
Investment earnings	5,246,224	3,161,241	2,084,983
Miscellaneous	85,467	666,613	(581,146)
Extraordinary item	-	2,512,251	(2,512,251)
Total Revenue	<u>45,943,197</u>	<u>45,506,806</u>	<u>436,391</u>
Expenses:			
Instruction, curriculum and media services	16,550,861	15,309,237	1,241,624
Instructional and school leadership	2,421,244	2,339,320	81,924
Student support services	2,551,110	2,535,733	15,377
Child nutrition	1,310,797	1,303,089	7,708
Cocurricular activities	1,887,641	1,861,475	26,166
General administration	1,321,742	1,273,095	48,647
Plant maintenance, security, data processing, community services	5,797,460	5,807,767	(10,307)
Debt services	5,318,573	2,675,129	2,643,444
Intergovernmental charges	1,950,755	1,425,910	524,845
Total Expenses	<u>39,110,183</u>	<u>34,530,755</u>	<u>4,579,428</u>
Increase in Net Position	6,833,014	10,976,051	(4,143,037)
Net Position - beginning of period	28,361,115	17,385,064	10,976,051
Prior Period Adjustment	(1,242,123)	-	(1,242,123)
Net Position - end of period	<u>\$ 33,952,006</u>	<u>\$ 28,361,115</u>	<u>\$ 5,590,891</u>

The cost of all governmental activities for the current fiscal period was \$39,110,183. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was \$23,109,573, as some of the costs were paid by those who directly benefited from the programs (\$924,439) or State equalization funding (\$11,576,493).

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, *committed, assigned and unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal period.

As the District completed the period, its governmental funds (as presented in the Balance Sheet on page 16) reported combined fund balance of \$95,362,682, which is \$26,555,267 lower than last year's total of \$121,917,949. 12.92 percent of the total amount (\$12,321,973) is *committed, assigned and unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *nonspendable or restricted* to indicate that it is not available for new spending because it is already restricted for debt service (\$12,421,005), already spent on prepaid items (\$298,315), restricted for food service (\$503,321) or restricted for capital projects (\$69,818,068).

The general fund is the chief operating fund of the District. At the end of the current fiscal period, *unassigned fund balance* of the general fund was \$12,227,502, while the total fund balance was \$12,399,291. The fund balance of the general fund increased by \$48,071 during the current fiscal year compared to a \$571,742 increase in the prior year.

Factors affecting the increase in the general fund fund balance are as follows:

- revenues decreased \$328,433 or 1.13% compared to the prior year, primarily due to a \$530,321 decrease in Federal funding.
- expenditures increased \$1,039,685 or 3.65% compared to the prior year, primarily due to increases in instruction and payments to fiscal agents.

The fund balance in the debt service fund increased \$2,919,141 or 30.72%, from \$9,501,864 to \$12,421,005, during the current fiscal year, primarily due to \$684,492 more property taxes than the prior year and \$438,940 in additional state payments.

The child nutrition fund showed an \$81,758 profit from current year operations compared to a \$52,067 profit in the prior year. Federal meal reimbursements as well as paid meals decreased in the current year but were offset by a comparable decrease in expenditures. The fund balance in the capital projects fund decreased \$29,625,105 primarily due to \$32,844,380 in expenditures on various construction/renovation projects.

Over the course of the fiscal year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the period and reflect the actual beginning balances (versus the amounts we estimated in June, 2024). The second category includes changes that the Board made during the period to reflect new information regarding revenue sources and expenditure needs. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's general fund balance of \$12,399,291 reported on page 16 differs from the general fund's budgetary fund balance of \$12,351,220 reported in the budgetary comparison schedule on page 23. This is principally due to cost savings in several functional categories.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2025, the District had \$87,871,371 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$30,887,755, or 54.20%, above last year.

This fiscal period's major additions consisted of the following:

Continued construction on a new Middle School, paid for with general obligation bond proceeds	\$28,305,158
Continued construction on the CTE facility, paid for with general obligation bond proceeds	1,979,588
Continued construction on the middle school gym lobby, paid for with proceeds from TxDOT	744,516
Computers and iPads	411,112
5 vehicles, including 2 school buses	439,521
Total	<u>\$31,879,895</u>

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At year-end, the District had \$136,489,680 in bonds, maintenance tax notes outstanding (including accreted interest on bonds), and compensated absences versus \$138,888,095 last year—a decrease of 1.73 percent. The District did not issue any new debt during the fiscal year. The District's general obligation bond rating is A+ according to national rating agencies but is considered AAA as a result of guarantees of the Texas Permanent School Fund.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Krum Independent School District will begin the school year with a healthy general fund balance of \$12.3 million, which is more than five months of general fund expenditures. The district was pleasantly surprised that there was a small increase of \$48K to the general fund balance as templates were calculating a \$1.8 million deficit due to lower student enrollment and declining mineral values. The deficit was decreased due to several factors such as a large settle up from the state and reclassification of capital improvement expenditures to bond expenditures.
- The main goal for the 2025-2026 school year is to balance the budget. However, we adopted the current budget before the legislative session ended. KISD adopted a \$1.6 M deficit, as revenue was calculated using old law with current year expenditures. In October, a budget amendment was approved by the School Board for an additional \$2.3M dollars of new revenue and expenditures. Most of the expenditures will account for the mandated state raises. The increase in revenue is due to the legislative changes in allotment funds. Even though revenue increased by \$2.3M dollars it is still estimated that there will be a small deficit.
- Krum ISD is now considered a "property rich district" due to property value growth. The District paid a recapture payment back to the state of \$53K for 2023-2024, \$111K for 2024-2025 and an estimated amount of \$93K for the current school year.

- Student enrollment continues to be hard to estimate. The district is still experiencing an increase in housing developments; however, the typical growth of 150 students each year hasn't shown consistent in the last couple of years. At the end of the first six weeks, enrollment was at 2,573 showing no growth from the end of the year enrollment of 2572.
- House Bill 3 required a compression of the Maintenance and Operations tax rate. As property values increase the tax rate continues to decrease. Since 2019-2020 the rate has compressed from \$1.06835 to a current rate of \$0.7206 for the 2025-2026 school year, a \$0.34775 cent decrease. Many surrounding districts initially adopted deficit budgets for the 2025-2026 school year due to declining enrollment and the impact of the tax compression rate, homestead exemptions, and recapture.
- Inflation continues to be an issue with supply budgets, especially on the capital projects the district has planned.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Krum Independent School District, 1200 Bobcat Blvd., Krum, Texas 76249, (940) 482-6000.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 98,921,811
1220 Property Taxes - Delinquent	438,720
1230 Allowance for Uncollectible Taxes	(30,710)
1240 Due from Other Governments	3,742,656
1267 Due from Fiduciary Funds	15,422
1410 Prepayments	298,315
Capital Assets:	
1510 Land	3,723,142
1520 Buildings, Net	45,435,408
1530 Furniture and Equipment, Net	4,548,694
1580 Construction in Progress	34,164,127
1000 Total Assets	191,257,585
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,113,409
1705 Deferred Outflow Related to TRS Pension	1,655,823
1706 Deferred Outflow Related to TRS OPEB	2,318,344
1700 Total Deferred Outflows of Resources	5,087,576
LIABILITIES	
2110 Accounts Payable	6,527,568
2140 Interest Payable	2,046,848
2150 Payroll Deductions and Withholdings	205,617
2160 Accrued Wages Payable	526,024
2200 Accrued Expenses	333,603
2300 Unearned Revenue	22,710
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	2,325,239
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	134,164,441
2540 Net Pension Liability (District's Share)	6,529,883
2545 Net OPEB Liability (District's Share)	4,651,162
2000 Total Liabilities	157,333,095
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	409,622
2606 Deferred Inflow Related to TRS OPEB	4,650,438
2600 Total Deferred Inflows of Resources	5,060,060
NET POSITION	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	24,191,817
Restricted:	
3820 Restricted for Federal and State Programs	503,321
3850 Restricted for Debt Service	12,421,005
3900 Unrestricted	(3,164,137)
3000 Total Net Position	\$ 33,952,006

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

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

EXHIBIT B-1

FOR THE YEAR ENDED JUNE 30, 2025					Net (Expense) Revenue and Changes in Net Position
Data Control Codes	1	Program Revenues		6	
		3	4	Primary Gov.	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 16,068,443	\$ 59,361	\$ 1,868,824	\$ (14,140,258)
12	Instructional Resources and Media Services	132,232	-	9,316	(122,916)
13	Curriculum and Instructional Staff Development	350,186	-	49,620	(300,566)
21	Instructional Leadership	420,307	-	54,579	(365,728)
23	School Leadership	2,000,937	-	179,593	(1,821,344)
31	Guidance, Counseling, and Evaluation Services	712,750	-	126,013	(586,737)
32	Social Work Services	42,353	-	25,584	(16,769)
33	Health Services	387,934	56,993	9,657	(321,284)
34	Student (Pupil) Transportation	1,408,073	-	203,984	(1,204,089)
35	Food Services	1,310,797	440,463	848,356	(21,978)
36	Extracurricular Activities	1,887,641	67,548	190,949	(1,629,144)
41	General Administration	1,321,742	2,370	216,414	(1,102,958)
51	Facilities Maintenance and Operations	4,149,260	60,258	209,993	(3,879,009)
52	Security and Monitoring Services	671,875	-	153,789	(518,086)
53	Data Processing Services	579,284	-	35,733	(543,551)
61	Community Services	397,041	237,446	29,249	(130,346)
72	Debt Service - Interest on Long-Term Debt	5,312,946	-	789,348	(4,523,598)
73	Debt Service - Bond Issuance Cost and Fees	5,627	-	-	(5,627)
93	Payments Related to Shared Services Arrangements	1,790,187	-	-	(1,790,187)
99	Other Intergovernmental Charges	160,568	-	-	(160,568)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 39,110,183	\$ 924,439	\$ 5,001,001	(33,184,743)
Data					
Control					
Codes					
	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes				14,191,833
DT	Property Taxes, Levied for Debt Service				8,917,740
SF	State Aid - Formula Grants				11,576,493
IE	Investment Earnings				5,246,224
MI	Miscellaneous Local and Intermediate Revenue				85,467
TR	Total General Revenues				40,017,757
CN	Change in Net Position				6,833,014
NB	Net Position - Beginning as Previously Reported				28,361,115
PA	Prior Period Adjustment				(1,242,123)
	Net Position - Beginning as Restated and Adjusted				27,118,992
NE	Net Position - Ending				\$ 33,952,006

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

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

Data Control Codes	10 General Fund	Child Nutrition Fund	50 Debt Service Fund
ASSETS			
1110 Cash and Cash Equivalents	\$ 9,580,060	\$ 552,165	\$ 12,420,504
1220 Property Taxes - Delinquent	295,195	-	143,525
1230 Allowance for Uncollectible Taxes	(20,663)	-	(10,047)
1240 Due from Other Governments	3,738,867	-	501
1260 Due from Other Funds	15,422	200	-
1410 Prepayments	171,789	-	-
1000 Total Assets	<u>\$ 13,780,670</u>	<u>\$ 552,365</u>	<u>\$ 12,554,483</u>
LIABILITIES			
2110 Accounts Payable	\$ 74,906	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	205,617	-	-
2160 Accrued Wages Payable	498,628	23,695	-
2170 Due to Other Funds	200	-	-
2200 Accrued Expenditures	327,496	4,419	-
2300 Unearned Revenue	-	20,930	-
2000 Total Liabilities	<u>1,106,847</u>	<u>49,044</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	274,532	-	133,478
2600 Total Deferred Inflows of Resources	<u>274,532</u>	<u>-</u>	<u>133,478</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	171,789	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	503,321	-
3470 Capital Acquisition and Contractual Obligation	-	-	-
3480 Retirement of Long-Term Debt	-	-	12,421,005
Committed Fund Balance:			
3545 Campus Activity	-	-	-
3600 Unassigned Fund Balance	12,227,502	-	-
3000 Total Fund Balances	<u>12,399,291</u>	<u>503,321</u>	<u>12,421,005</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 13,780,670</u>	<u>\$ 552,365</u>	<u>\$ 12,554,483</u>

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

60 Capital Projects	Other Funds	Total Governmental Funds
\$ 76,270,730	\$ 98,352	\$ 98,921,811
-	-	438,720
-	-	(30,710)
-	3,288	3,742,656
-	-	15,622
126,526	-	298,315
<u>\$ 76,397,256</u>	<u>\$ 101,640</u>	<u>\$ 103,386,414</u>
\$ 6,452,662	\$ -	\$ 6,527,568
-	-	205,617
-	3,701	526,024
-	-	200
-	1,688	333,603
-	1,780	22,710
<u>6,452,662</u>	<u>7,169</u>	<u>7,615,722</u>
-	-	408,010
-	-	408,010
126,526	-	298,315
-	-	503,321
69,818,068	-	69,818,068
-	-	12,421,005
-	94,471	94,471
-	-	12,227,502
<u>69,944,594</u>	<u>94,471</u>	<u>95,362,682</u>
<u>\$ 76,397,256</u>	<u>\$ 101,640</u>	<u>\$ 103,386,414</u>

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 95,362,682
1 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements.	130,994,471
2 Accumulated depreciation is not reported in the fund financial statements.	(43,123,100)
3 Long-term debt such as: Bonds payable (\$129,465,000), maintenance tax notes (\$1,492,000), and compensated absences (\$386,649) are not reported in the fund financial statements.	(131,343,649)
4 Bond premiums on outstanding bonds payable are not recognized in the fund financial statements.	(5,146,031)
5 The deferred charge on bond refundings is not recognized in the fund financial statements.	1,113,409
6 Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(2,046,848)
7 Property tax revenue reported as unavailable revenue in the fund financial statements is recognized as revenue in the government-wide financial statements.	408,010
8 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the Net Pension Liability required by GASB 68 in the amount of \$6,529,883, Deferred Inflows of Resources related to TRS in the amount of \$409,622, and Deferred Outflows of Resources related to TRS in the amount of \$1,655,823. This results in a decrease in Net Position.	(5,283,682)
9 Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net Other Post-Employment Benefit (OPEB) liability required by GASB 75 in the amount of \$4,651,162, Deferred Inflows of Resources related to TRS OPEB in the amount of \$4,650,4385, and Deferred Outflows of Resources related to TRS OPEB in the amount of \$2,318,344. This results in a decrease in Net Position.	(6,983,256)
29 Net Position of Governmental Activities	<u>\$ 33,952,006</u>

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

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

Data Control Codes	10 General Fund	Child Nutrition Fund	50 Debt Service Fund
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 15,359,240	\$ 444,539	\$ 9,392,270
5800 State Program Revenues	13,214,094	38,304	789,348
5900 Federal Program Revenues	120,344	777,031	-
5020 Total Revenues	28,693,678	1,259,874	10,181,618
EXPENDITURES:			
Current:			
0011 Instruction	14,633,959	-	-
0012 Instructional Resources and Media Services	177,307	-	-
0013 Curriculum and Instructional Staff Development	317,210	-	-
0021 Instructional Leadership	395,767	-	-
0023 School Leadership	1,950,157	-	-
0031 Guidance, Counseling, and Evaluation Services	635,796	-	-
0032 Social Work Services	268	-	-
0033 Health Services	384,666	-	-
0034 Student (Pupil) Transportation	1,539,785	-	-
0035 Food Services	8,916	1,178,116	-
0036 Extracurricular Activities	1,035,503	-	-
0041 General Administration	1,239,463	-	-
0051 Facilities Maintenance and Operations	3,537,310	-	-
0052 Security and Monitoring Services	447,539	-	-
0053 Data Processing Services	575,013	-	-
0061 Community Services	393,402	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	228,000	-	1,573,314
0072 Interest on Long-Term Liabilities	39,508	-	5,683,536
0073 Bond Issuance Cost and Fees	-	-	5,627
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	1,790,187	-	-
0099 Other Intergovernmental Charges	160,568	-	-
6030 Total Expenditures	29,490,324	1,178,116	7,262,477
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(796,646)	81,758	2,919,141
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	844,717	-	-
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	844,717	-	-
1200 Net Change in Fund Balances	48,071	81,758	2,919,141
0100 Fund Balance - July 1 (Beginning)	12,351,220	421,563	9,501,864
3000 Fund Balance - June 30 (Ending)	\$ 12,399,291	\$ 503,321	\$ 12,421,005

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

	60 Capital Projects	Other Funds	Total Governmental Funds
\$	4,283,310	\$ 141,546	\$ 29,620,905
	-	499,693	14,541,439
	-	347,439	1,244,814
	4,283,310	988,678	45,407,158
	-	604,223	15,238,182
	-	-	177,307
	-	31,019	348,229
	-	20,969	416,736
	-	6,102	1,956,259
	-	71,255	707,051
	-	41,664	41,932
	-	-	384,666
	-	-	1,539,785
	-	-	1,187,032
	-	120,678	1,156,181
	-	-	1,239,463
	219,318	-	3,756,628
	-	71,861	519,400
	-	-	575,013
	-	39	393,441
	-	-	1,801,314
	-	-	5,723,044
	-	-	5,627
	32,844,380	-	32,844,380
	-	-	1,790,187
	-	-	160,568
	33,063,698	967,810	71,962,425
	(28,780,388)	20,868	(26,555,267)
	-	-	844,717
	(844,717)	-	(844,717)
	(844,717)	-	-
	(29,625,105)	20,868	(26,555,267)
	99,569,699	73,603	121,917,949
\$	69,944,594	\$ 94,471	\$ 95,362,682

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (26,555,267)
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of reclassifying the current year capital asset additions is to increase net position.	34,022,082
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position in the government-wide financial statements.	(3,134,327)
Current year long-term debt principal payments on bonds payable, accreted interest, and maintenance tax notes, are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	2,103,000
Current year interest accretion on capital appreciation bonds is not reflected in the fund financial statements, but is shown as an increase in long-term liabilities in the government-wide financial statements.	(2,311)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due. The current year increase in accrued interest payable decreases the change in net position in the government-wide financial statements.	(83,229)
Bond premiums and discounts are not amortized in the fund financial statements, but are reported net of amortization in the government-wide financial statements.	319,538
Current year amortization of the deferred charge on bond refundings is not recognized in the fund financial statements, but is shown as a reduction of the deferred charge in the government-wide financial statements.	(125,586)
Current year net usage of compensated absences are recognized as expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	(21,812)
Revenues from property taxes are shown as unavailable in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible accounts, in the government-wide financial statements.	(118,238)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS contributions made after the measurement date of 08/31/24 caused the change in the ending net position to increase \$109,806. These contributions were replaced with the District's negative pension expense for the year of \$314,855, which caused a decrease in the change in net position.	(205,049)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS OPEB contributions made after the measurement date of 08/31/24 but during the current fiscal year caused the ending change in net position to increase in the amount of \$9,900. These contributions were replaced with the District's OPEB expense for the year, which was \$624,313 and caused an increase in the change in net position.	634,213
Change in Net Position of Governmental Activities	\$ 6,833,014

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

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 17,350,709	\$ 17,007,278	\$ 15,359,240	\$ (1,648,038)
5800	State Program Revenues	13,311,434	13,695,355	13,214,094	(481,261)
5900	Federal Program Revenues	307,483	320,983	120,344	(200,639)
5020	Total Revenues	30,969,626	31,023,616	28,693,678	(2,329,938)
EXPENDITURES:					
Current:					
0011	Instruction	15,605,423	14,904,413	14,633,959	270,454
0012	Instructional Resources and Media Services	262,238	202,238	177,307	24,931
0013	Curriculum and Instructional Staff Development	254,473	342,473	317,210	25,263
0021	Instructional Leadership	451,132	416,132	395,767	20,365
0023	School Leadership	2,067,784	1,997,784	1,950,157	47,627
0031	Guidance, Counseling, and Evaluation Services	683,087	679,887	635,796	44,091
0032	Social Work Services	-	3,200	268	2,932
0033	Health Services	400,846	400,846	384,666	16,180
0034	Student (Pupil) Transportation	1,464,979	1,564,979	1,539,785	25,194
0035	Food Services	11,500	11,500	8,916	2,584
0036	Extracurricular Activities	1,130,921	1,122,921	1,035,503	87,418
0041	General Administration	1,206,810	1,311,810	1,239,463	72,347
0051	Facilities Maintenance and Operations	4,069,836	4,219,836	3,537,310	682,526
0052	Security and Monitoring Services	438,508	478,508	447,539	30,969
0053	Data Processing Services	662,309	662,309	575,013	87,296
0061	Community Services	478,518	478,518	393,402	85,116
Debt Service:					
0071	Principal on Long-Term Liabilities	230,000	230,000	228,000	2,000
0072	Interest on Long-Term Liabilities	41,000	41,000	39,508	1,492
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	1,325,262	1,725,262	1,790,187	(64,925)
0095	Payments to Juvenile Justice Alternative Ed. Prg.	5,000	5,000	-	5,000
0099	Other Intergovernmental Charges	180,000	225,000	160,568	64,432
6030	Total Expenditures	30,969,626	31,023,616	29,490,324	1,533,292
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(796,646)	(796,646)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	179,966	844,717	664,751
8911	Transfers Out (Use)	-	(179,966)	-	179,966
7080	Total Other Financing Sources (Uses)	-	-	844,717	844,717
1200	Net Change in Fund Balances	-	-	48,071	48,071
0100	Fund Balance - July 1 (Beginning)	12,351,220	12,351,220	12,351,220	-
3000	Fund Balance - June 30 (Ending)	\$ 12,351,220	\$ 12,351,220	\$ 12,399,291	\$ 48,071

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

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

	Total Custodial Funds
ASSETS	
Cash and Cash Equivalents	\$ 202,521
Total Assets	<u>202,521</u>
LIABILITIES	
Due to Other Funds	<u>15,422</u>
Total Liabilities	<u>15,422</u>
NET POSITION	
Unrestricted Net Position	<u>187,099</u>
Total Net Position	<u><u>\$ 187,099</u></u>

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

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

	Total Custodial Funds
ADDITIONS:	
Received from Student Groups	\$ 423,280
Earnings from Temporary Deposits	923
Total Additions	<u>424,203</u>
DEDUCTIONS:	
Student Groups	<u>419,713</u>
Total Deductions	<u>419,713</u>
Change in Fiduciary Net Position	4,490
Total Net Position - July 1 (Beginning)	<u>182,609</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 187,099</u></u>

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

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KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Krum Independent School District (the "District") is a public educational agency operating under the applicable rules and regulations of the State of Texas. The District's combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees, a seven member group elected by registered voters of the District, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. 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 Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basis financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Krum Independent School District has no component units.

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. The effect of interfund activity, within the governmental and business-type activities columns, 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 District had no business-type activities during the year ended June 30, 2025.

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

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.
4. **Special Revenue Fund-National Breakfast and Lunch Program** - This fund is established to account for resources financing the child nutrition program of the District. Federal reimbursement revenues originating from the US Department of Agriculture, as well as user fees, are expended for program operations with any unused balances legally restricted for use in the program.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Fiduciary Funds** - The District reports Custodial Funds as Fiduciary Funds. Custodial Funds are custodial in nature and account for activities of student and employee groups. Custodial Funds use the accrual basis of accounting to recognize assets and liabilities. The Custodial Funds exist with the explicit approval of, and are subject to revocation by, the Board.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end, and a 60-day period is also used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pool are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

In accordance with the Texas Education Agency's Financial Accountability System Resource Guide (FASRG), the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the Resource Guide.

D. BUDGETARY CONTROL

Formal budgetary accounting was employed for all required Governmental Fund Types, as outlined in TEA's FASRG 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 was prepared for adoption for required Governmental Fund Types prior to June 20 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. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Child Nutrition Fund. The other special revenue funds and the Capital Projects Fund adopt project-length budgets which do not correspond to the District's fiscal period. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the period by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	June 30, 2025
	<u>Fund Balance</u>
Appropriated Budget Funds	\$503,321
Nonappropriated Budget Funds	<u>94,471</u>
All Special Revenue Funds	<u>\$597,792</u>

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at June 30, 2025.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

F. PREPAID ITEMS

Prepaid balances are for payments made by the District in the current fiscal period to provide services occurring in the subsequent fiscal year, and the amount of prepaid items has been recognized as nonspendable fund balance to signify that a portion of fund balance is not available for other subsequent expenditures.

G. INVENTORIES

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.

H. INTERFUND RECEIVABLES AND PAYABLES

Short-term amounts owed between funds are classified as “Due to/from other funds”. Interfund loans are classified as “Advances to/from other funds” and are offset by a fund balance reserve account. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as “internal balances” and “internal advances”.

I. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	20-40 Years
Furniture and Equipment	5-10 Years

In May 2021, GASB Implementation Guide No. 2021-1 updated guidance to require the capitalization of purchases of certain groups of assets with individual values less than the capitalization threshold, effective for fiscal years beginning after June 15, 2023. In prior years, the District had expended purchases of groups of assets with individual values less than the District capitalization threshold.

J. COMPENSATED ABSENCES

A liability for compensated absences that employees have earned and carry-forward to future fiscal years has been accrued in the government-wide financial statements in accordance with GASB Statement No. 101, “Compensated Absences,” which was effective for fiscal years beginning after December 15, 2023. The measurement of the liability includes salary-related payments that are directly and incrementally associated with the leave (e.g., employer Social Security and Medicare payroll taxes).

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, the deferred charge on bond refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities for the deferred charge on bond refundings at June 30, 2025 was \$1,113,409.

Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently approximately 5.6451 years.

A deferred outflow for pension expense results from payments made to the TRS pension plan by the District after the plan's measurement date. The amount of deferred outflows reported in the statement of net position for deferred pension expenses at June 30, 2025 was \$1,655,823.

Deferred outflows of resources for OPEB- Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan which is currently approximately 9.4212 years. The amount of deferred outflows reported in the statement of net position for deferred OPEB expense at June 30, 2025 was \$2,318,344.

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources in the fund financial statements. The amount of deferred inflows of resources reported in the governmental funds at June 30, 2025 was \$408,010.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

Deferred inflows of resources for pension - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five-year period. In fiscal year 2025, the District reported deferred inflows of resources for pensions in the statement of net position in the amount of \$409,622.

Deferred inflows of resources for OPEB - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remaining service life (AERSL) of all members (9.4212 years for the 2024 measurement year). In fiscal year 2025, the District reported deferred inflows of resources for OPEB in the statement of net position in the amount of \$4,650,438.

L. NET POSITION

Net position represents the difference between assets, deferred outflows, deferred inflows and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

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

N. 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 period, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

O. ESTIMATES

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

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

P. DATA CONTROL CODES

Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resources Guide*. TEA requires school districts to display these codes in the financial statements filed with the agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

NOTE 2. FUND BALANCE AND NET POSITION

Net position on the government-wide *Statement of Net Position* includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that is directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by the bond covenants.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities and deferred inflows that is not invested in capital assets or restricted for specific purposes.

It is the District's policy to spend funds available from restricted sources prior to unrestricted sources.

The District has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions," which provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects fund resources are to be used for future construction and renovation projects and are restricted through bond orders and constitutional law. Food service resources are restricted because their use is restricted pursuant to the mandates of the National School Lunch and Breakfast Program.

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of June 30, 2025 for campus activities.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Board of Trustees has no assigned fund balance as of June 30, 2025.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

The Board of Trustees has adopted a fund balance policy that expresses an intent to maintain a level of assigned and unassigned fund balance in the general fund equal to 25 percent of the fund's operating expenditures.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 16) and are described below:

General Fund

The General Fund has unassigned fund balance of \$12,227,502 at June 30, 2025. Prepaid items of \$171,789 are considered nonspendable fund balance.

Other Major Funds

The Debt Service Fund has restricted funds of \$12,421,005 at June 30, 2025 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

Other Funds

The fund balance of \$94,471 of the Campus Activity Fund (a special revenue fund) is shown as committed due to Board policy committing those funds to campus activities. Child nutrition funds of \$503,321 are restricted for that purpose. Capital projects funds of \$69,818,068 are restricted for future construction and renovation projects, while an additional \$126,526 of prepaid items are considered nonspendable.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 3. DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. 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") insurance.

1. Cash Deposits:

At June 30, 2025, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$23,735,194 and the bank balance was \$24,382,985. The District's cash deposits at June 30, 2025 and during all of fiscal year 2025 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2025, the District's cash balances totaled \$24,382,985. This entire amount was either collateralized with securities or a letter of credit held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus, the District's deposits are not exposed to custodial credit risk.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2025, the District held investments in the TexStar public funds investment pool. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk.
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

**KRUM INDEPENDENT SCHOOL DISTRICT
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- e. **Foreign Currency Risk:** This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2025, the District was not exposed to foreign currency risk.
- f. **Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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

<u>Name</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
TexStar	<u>\$75,389,138</u>	<u>\$75,389,138</u>
Total	<u>\$75,389,138</u>	<u>\$75,389,138</u>

Fair Value Measurements

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

Investments in statewide 2a7-like external investment pools are not required to be measured at fair value but are measured at amortized cost.

**KRUM INDEPENDENT SCHOOL DISTRICT
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NOTE 4. CAPITAL ASSETS

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

	Balance July 1	Additions/ Completions	Retirement/ Adjustments	Balance June 30
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 3,608,110	\$ 115,032	\$ -	\$ 3,723,142
Construction in Progress	9,312,450	31,581,064	(6,729,387)	34,164,127
Total Capital assets not being depreciated	<u>12,920,560</u>	<u>31,696,096</u>	<u>(6,729,387)</u>	<u>37,887,269</u>
Capital assets, being depreciated				
Buildings and Improvements	74,568,659	7,181,079	-	81,749,738
Furniture and Equipment	9,570,630	1,874,294	(87,460)	11,357,464
Total Capital assets being depreciated	<u>84,139,289</u>	<u>9,055,373</u>	<u>(87,460)</u>	<u>93,107,202</u>
Less accumulated depreciation for:				
Buildings and Improvements	(34,114,493)	(2,199,837)	-	(36,314,330)
Furniture and Equipment	(5,961,740)	(934,490)	87,460	(6,808,770)
Total accumulated depreciation	<u>(40,076,233)</u>	<u>(3,134,327)</u>	<u>87,460</u>	<u>(43,123,100)</u>
Total Capital assets, being depreciated, net	<u>44,063,056</u>	<u>5,921,046</u>	<u>-</u>	<u>49,984,102</u>
Governmental activities capital assets, net	<u>\$ 56,983,616</u>	<u>\$ 37,617,142</u>	<u>\$ (6,729,387)</u>	<u>\$ 87,871,371</u>

Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental Activities:	
Instruction	\$ 1,303,267
Instructional Resources & Media Services	10,644
School Leadership	26,963
Student (Pupil) Transportation	236,962
Food Services	117,300
Cocurricular/Extracurricular Activities	726,293
General Administration	62,135
Plant Maintenance & Operations	501,070
Security and Monitoring Services	148,354
Data Processing Services	700
Community Services	639
Total Depreciation Expense - Governmental	<u>\$ 3,134,327</u>

NOTE 5. LONG-TERM DEBT

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes, and compensated absences. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

**KRUM INDEPENDENT SCHOOL DISTRICT
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The following is a summary of the changes in the District's Long-term Debt for the year ended June 30, 2025:

Description	Rate Payable	Outstanding 07/01/24	Additions	Refunded/ Retired	Outstanding 06/30/25	Due Within One Year
Bonded Indebtedness:						
1998 Refunding	4.00 - 5.30%	\$ 5,000	\$ -	\$ (5,000)	\$ -	\$ -
2003 Bldg. & Ref.	2.41 - 5.40%	48,314	-	(48,314)	-	-
2015A Refunding	2.00 - 4.00%	4,625,000	-	(540,000)	4,085,000	605,000
2015B Refunding	4.00%	5,500,000	-	-	5,500,000	695,000
2016 Refunding	2.00 - 4.00%	5,450,000	-	(615,000)	4,835,000	-
2017 Refunding	3.00 - 4.00%	5,240,000	-	(205,000)	5,035,000	210,000
2021 Refunding	0.22 - 1.80%	7,130,000	-	(160,000)	6,970,000	185,000
2022 Building	4.00 - 5.00%	16,685,000	-	-	16,685,000	-
2024 Building	4.00 - 5.00%	86,355,000	-	-	86,355,000	-
Total Bonded Indebtedness		<u>131,038,314</u>	<u>-</u>	<u>(1,573,314)</u>	<u>129,465,000</u>	<u>1,695,000</u>
Accreted Interest Payable		299,375	2,311	(301,686)	-	-
Bond Discounts/Premiums		5,465,569	-	(319,538)	5,146,031	319,538
Maintenace Tax Notes	2%	1,720,000	-	(228,000)	1,492,000	234,000
Compensated Absences*		<u>364,837</u>	<u>21,812</u>	<u>-</u>	<u>386,649</u>	<u>76,701</u>
Total Other Obligations		<u>7,849,781</u>	<u>24,123</u>	<u>(849,224)</u>	<u>7,024,680</u>	<u>630,239</u>
Total Obligations of District		<u>\$ 138,888,095</u>	<u>\$ 24,123</u>	<u>\$ (2,422,538)</u>	<u>\$ 136,489,680</u>	<u>\$ 2,325,239</u>

*Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101.

The 1998 and 2003 bond series included outstanding capital appreciation bonds in the principal amount. The bonds matured during the fiscal year. As of June 30, 2025 there is no accreted interest payable.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2025.

NOTE 6. DEBT SERVICE REQUIREMENTS - BONDS

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended June 30,	Principal	Interest	Total
2026	\$ 1,695,000	\$ 5,390,672	\$ 7,085,672
2027	2,445,000	5,310,414	7,755,414
2028	2,540,000	5,209,212	7,749,212
2029	2,645,000	5,104,600	7,749,600
2030	2,750,000	4,996,462	7,746,462
2031-2035	15,390,000	23,358,912	38,748,912
2036-2040	18,405,000	20,229,400	38,634,400
2041-2045	23,065,000	15,397,538	38,462,538
2046-2050	28,690,000	9,728,087	38,418,087
2051-2055	31,840,000	3,277,744	35,117,744
	<u>\$ 129,465,000</u>	<u>\$ 98,003,041</u>	<u>\$ 227,468,041</u>

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Presented below is a summary of maintenance tax note requirements to maturity:

Year Ended June 30,	Principal	Interest	Total
2026	\$ 234,000	\$ 33,824	\$ 267,824
2027	240,000	27,995	267,995
2028	245,000	22,030	267,030
2029	251,000	15,929	266,929
2030	258,000	9,667	267,667
2031	264,000	3,247	267,247
	<u>\$ 1,492,000</u>	<u>\$ 112,692</u>	<u>\$ 1,604,692</u>

NOTE 7. DEFEASED BONDS

In prior years, the District issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities are not included in the District's financial statements. On June 30, 2025 \$7,000,000 of bonds considered defeased are still outstanding.

NOTE 8. PROPERTY TAXES

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code which established an appraisal district and an appraisal review board in each county in the State of Texas. Denton Central Appraisal District (DCAD) is responsible for the appraisal of property for all taxing units in Denton County, including the District. Under the terms of a contract for appraisal services, the District paid DCAD \$160,143 in fiscal year 2025 for appraising property.

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District 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 February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2024-25 fiscal year was based was \$1,993,855,971. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2025, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.7552 and \$0.4746 per \$100 valuation, respectively, for a total of \$1.2298 per \$100 valuation.

Current tax collections for the year ended June 30, 2025 were 98.75% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds 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 \$274,532 and \$133,478 for the General and Debt Service Funds, respectively.

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Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

NOTE 9. DEFINED BENEFIT PENSION PLAN

Plan Description. Krum Independent School 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 work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (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 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description 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.

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

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

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

	<u>Contribution Rates</u>	
	<u>2024</u>	<u>2025</u>
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
Krum ISD FY2025 Employer Contributions		\$ 702,652
Krum ISD FY2025 Member Contributions		\$ 1,553,975
Krum ISD FY2025 NECE On-Behalf Contributions		\$ 1,158,357

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

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

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

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

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

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Actuarial Assumptions. The total pension liability in the August 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2024	3.87%
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

Discount Rate. A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity 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 percent 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 percent. 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 asset allocation as of August 31, 2024 are summarized below:

**KRUM INDEPENDENT SCHOOL DISTRICT
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Asset Class	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18%	4.4%	1.00%
Non-US Developed	13%	4.2%	0.80%
Emerging Markets	9%	5.2%	0.70%
Private Equity	14%	6.7%	1.20%
Stable Value			
Government Bonds	16%	109%	0.40%
Absolute Return ⁴	0%	4.0%	0.00%
Stable Value Hedge Funds	5%	3.0%	0.20%
Real Return			
Real Estate	15%	6.6%	1.20%
Energy, Natural Resources, Infrastructure	6%	5.6%	0.40%
Commodities	0%	2.5%	0.00%
Risk Parity	8%	4.0%	0.40%
Asset Allocation Leverage			
Cash	2%	1.0%	0.00%
Asset Allocation Leverage	-6%	1.3%	-0.10%
Inflation Expectation	-		2.40%
Volatility Drag ³	-		-0.70%
Total	<u>100%</u>		<u>7.90%</u>

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the net pension liability if the discount rate used was one percentage point lower than and one percentage point higher than the discount rate that was used (7.00%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Krum ISD's proportionate share of the net pension liability:	\$10,429,878	\$6,529,883	\$3,298,460

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2025, the District reported a liability of \$6,529,883 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	\$ 6,529,883
State's proportionate share that is associated with the District	<u>11,991,520</u>
Total	<u>\$18,521,403</u>

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

¹ Target allocations are based on the FY24 policy model.

² Capital Market Assumptions (CMA) come from 2024 SAA Study CMA Survey (as of 12/31/23).

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

⁴ Absolute Return includes credit sensitive investments.

**KRUM INDEPENDENT SCHOOL DISTRICT
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At August 31, 2024 the employer's proportion of the collective net pension liability was 0.0106899746%, an increase of 1.76% from its proportionate share of 0.0105046055% at August 31, 2023.

Changes in Assumptions and Benefits Since the Prior Actuarial Valuation.

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

The Texas 2023 Legislature passed Senate Bill 10 (SB10), 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. SB10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.55 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.

The amount of pension expense recognized by the District in the reporting period was \$917,273.

For the year ended June 30, 2025 the District recognized pension expense of \$1,433,187 and revenue of \$1,433,187 for support by the State.

At June 30, 2025, the District reported its proportionate share of the TRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (The amounts shown below will be the cumulative layers from the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 359,918	\$ 50,982
Changes in actuarial assumptions	337,152	45,201
Difference between projected and actual investment earnings	39,693	-
Changes in proportion and difference between employer contributions and the proportionate share of contributions	313,080	313,439
Contributions paid to TRS subsequent to the measurement date	605,980	-
Total	\$1,655,823	\$ 409,622

The District recognized \$605,980 as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount	Balance of Deferred Outflows (Deferred Inflows)
2026	\$ 26,981	\$ 613,240
2027	707,896	(94,656)
2028	70,632	(165,288)
2029	(198,337)	33,049
2030	33,049	-
Thereafter	-	-

KRUM INDEPENDENT SCHOOL DISTRICT
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NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

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

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

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

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

TRS-Care Monthly for Retirees		
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

* or surviving spouse

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

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

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

Contribution Rates

	<u>2024</u>	<u>2025</u>
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%
Krum ISD FY2025 Employer Contributions		\$ 148,004
Krum ISD FY2025 Member Contributions		\$ 122,437
Krum ISD FY2025 NECE On-Behalf Contributions		\$ 355,437

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether they participate in the TRS Care OPEB program*). When hiring a TRS retiree, employers are required to pay 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 assumptions: *Actuarial Assumptions can be found in the 2024 TRS ACFR, Note 9.*

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

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

The active mortality rates were based on PUB (2010), Amount-Weighted, Below-Median Income, Teacher male and female tables (with a two-year set forward for males). The post-retirement mortality rates for healthy lives were based on the 2021 TRS of Texas Healthy Pensioner Mortality Tables. The rates were projected on a fully generational basis using the ultimate improvement rates from the 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%
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 claim costs
Projected Salary Increases	2.95% to 8.95%, including inflation
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65
Ad hoc post-employment benefit changes	None

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

Discount Rate. A single discount rate of 3.87% was used to measure the total OPEB liability. There 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 percentage point lower than and 1 percentage point higher than the discount rate that was used (3.87%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.87%)	Current Single Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
District's proportionate share of the Net OPEB Liability:	\$5,525,798	\$4,651,162	\$3,944,443

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

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District's proportionate share of the Net OPEB Liability:	\$3,787,681	\$4,651,162	\$5,776,364

OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At June 30, 2025, the District reported a liability of \$4,651,162 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective Net OPEB Liability	\$ 4,651,162
State's proportionate share that is associated with the District	<u>\$ 5,827,843</u>
Total	<u>\$10,479,005</u>

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

At August 31, 2024, the employer's proportion of the collective net OPEB liability was 0.0153543078%, a decrease of 1.35% compared to the August 31, 2023 proportionate share of 0.0155334782%.

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 single discount rate changed from 4.13 percent as of August 31, 2023 to 3.87 percent as of August 31, 2024, accompanied by revised demographic and economic assumptions based on the TRS experience study.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

- The tables used to model the impact of aging on the underlying claims were revised.

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

The amount of OPEB expense recognized by the District in the reporting period was \$(485,115).

For the year ended June 30, 2025, the District recognized OPEB expense of \$757,512 and revenue of \$757,512 for support provided by the State.

At June 30, 2025, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (the amounts shown below will be the cumulative layers for the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 891,472	\$2,321,182
Changes in actuarial assumptions	595,294	1,517,620
Difference between projected and actual investment earnings	(13,025)	-
Changes in proportion and difference between Employer contributions and the proportionate share of contributions	719,578	811,636
Contributions paid to TRS subsequent to the measurement date	125,025	-
Total	\$2,318,344	\$4,650,438

The District recognized \$125,025 as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	OPEB Expense Amount	Balance of Deferred Outflows (Deferred Inflows)
2026	\$ (606,175)	\$ (1,850,944)
2027	(395,518)	(1,455,426)
2028	(494,532)	(960,894)
2029	(453,077)	(507,817)
2030	(317,198)	(190,619)
Thereafter	(190,619)	-

NOTE 11. SCHOOL DISTRICT RETIREE HEALTH PLAN

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended June 30, 2025, the contribution made on behalf of the District was \$122,974.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at June 30, 2025 represented short-term advances between funds because much activity of the District flows through a pooled bank account. These amounts are expected to be repaid in less than one year from June 30, 2025.

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

Interfund balances at June 30, 2025 were as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund:		
Special Revenue Fund	\$ -	\$ 200
Custodial Fund	15,422	-
Special Revenue Fund:		
General Fund	200	-
Custodial Fund:		
General Fund	-	15,422
Total	<u>\$ 15,622</u>	<u>\$ 15,622</u>

Interfunds transfers for the year ended June 30, 2025 consisted of the following individual amounts:

<u>Fund</u>	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
Capital Projects Fund:		
General Fund	\$ 844,717	\$ -
General Fund Fund:		
Capital Projects Fund	-	844,717
Total	<u>\$ 844,717</u>	<u>\$ 844,717</u>

NOTE 13. HEALTH CARE

During the year ended June 30, 2025, employees of Krum Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$325 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan (TRS Active-Care).

NOTE 14. SELF-INSURED WORKERS' COMPENSATION

The District participates in the Texas Educational Insurance Association Workers Compensation Self-Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$159,241 for the 24-25 fiscal period. Additionally, the District incurred fixed costs of \$51,275 for their share of claims administration, loss control, record keeping, and cost of excess insurance.

Claims Administrative Services, Inc provides claims administration. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

The accrued liability for workers compensation self-insurance of \$218,659 includes incurred but not reported claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in workers compensation claims liability amounts in fiscal periods 2024 and 2025 are represented below:

<u>Fiscal Period</u>	<u>Beginning Claims Liability</u>	<u>Claim and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Ending Claims Liability</u>
2024	\$196,284	\$53,494	\$22,102	\$227,676
2025	227,676	35,921	44,938	218,659

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 15. 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. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	State Entitlements	Federal Grants	Local Governments	Total
General Fund	\$ 3,738,067	\$ -	\$ 800	\$ 3,738,867
Debt Service	-	-	501	501
Special Revenue	-	3,288	-	3,288
	<u>\$ 3,738,067</u>	<u>\$ 3,288</u>	<u>\$ 1,301</u>	<u>\$ 3,742,656</u>

NOTE 16. LITIGATION AND CONTINGENCIES

Minimum foundation funding received from the Agency is based primarily upon information concerning average daily attendance at the District's schools which is compiled by the District and supplied to the Agency. Federal funding for Food Services under child nutrition programs is based primarily upon the number and type of meals served and on user charges as reported to the USDA. Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies.

The programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District's administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

The Denton Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future.

NOTE 17. UNEARNED REVENUE

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Prepaid Student Lunches	\$ -	\$ 20,930	-	-	\$ 20,930
Advanced Placement Incentives	-	391	-	-	391
State Instructional Materials	-	1,184	-	-	1,184
AP/IB Campus Awards	-	205	-	-	205
Total	<u>\$ -</u>	<u>\$ 22,710</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,710</u>

**KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE 18. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

During the current period, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 14,158,972	\$ -	\$ 8,891,615	\$ -	\$ 23,050,587
Food Sales	-	440,463	-	-	440,463
Investment Income	522,315	211	442,139	4,281,559	5,246,224
Penalties, interest and other tax related income	118,708	-	58,516	-	177,224
Tuition and fees	296,807	-	-	-	296,807
Insurance Recovery	60,258	-	-	-	60,258
Gifts and Bequests	51,634	777	-	-	52,411
Co-curricular student activities	67,548	141,546	-	-	209,094
Other	82,998	3,088	-	1,751	87,837
Total	<u>\$ 15,359,240</u>	<u>\$ 586,085</u>	<u>\$ 9,392,270</u>	<u>\$ 4,283,310</u>	<u>\$ 29,620,905</u>

NOTE 19. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education with five other school districts. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Sanger ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Krum ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended June 30, 2025, the District contributed \$1,790,187 to the fiscal agent as its share of the costs of the joint venture.

In a manner similar to that described above, the District also:

- is a member in a shared services arrangement for juvenile justice alternative education services with ten other school districts. The program is administered by Denton County. The District had no students in the program during the current fiscal period.
- is a member in a shared services arrangement for disciplinary alternative education services with six other school districts. Sanger ISD is the fiscal agent. The District had no students in the program during the current fiscal period.
- is a member in a shared services arrangement for deaf education services with 25 other school districts. The District had no students in the deaf education program during the current fiscal period.

NOTE 20. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the TEA. The budget should not be exceeded in any functional category under TEA requirements. For the year ended June 30, 2025, expenditures exceeded appropriations in one functional category in the general fund and one functional category in the debt service fund.

NOTE 21. TAX ABATEMENTS

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

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

NOTE 22. PRIOR PERIOD ADJUSTMENT

CHANGE IN ACCOUNTING PRINCIPLE – COMPENSATED ABSENCES

In June 2022, GASB issued new accounting pronouncement, GASB Statement No. 101, “Compensated Absences,” which was effective for fiscal years beginning after December 15, 2023. In compliance with this new accounting pronouncement, a liability has been recognized in the District’s statements of net position for carry-forward compensated absences more likely than not to be used by or paid to employees in future periods. The measurement of the liability includes salary-related payments that are directly and incrementally associated with the leave. Texas state law provides a state minimum personal leave program consisting of five days per year personal leave with no limit on accumulation and transferability among Texas school districts; school districts can provide additional personal leave beyond this minimum. The liability for compensated absences in governmental fund financial statements is the amount, if material, that is to be liquidated with expendable available financial resources. This new accounting pronouncement does not apply to holiday leave or projected effects on defined benefit postemployment liabilities. Under previous accounting rules, a liability for compensated absences would have been recorded only if accumulated benefits were to be paid upon employee termination or retirement.

During the year it was noted that unamortized bond premiums as well as deferred charges on refundings for previously matured and/or refunded bonds (Series 2005, Series 2007, and Series 2012), remained on the government-wide financial statements. All balances related to the bond issuances should have been accounted for during the time of retirement of the bonds.

The implementation of this new accounting standard, as well as the adjustments related to previously matured debt, resulted in restating beginning net position in the District’s governmental activities as follows:

Net position as of 06/30/24, as previously reported	\$ 28,361,115
Prior period adjustment – compensated absences	(364,837)
Prior period adjustment – deferred charge on refunding	(219,484)
Prior period adjustment – unamortized bond premium	<u>(657,802)</u>
Net position as of 06/30/24, as restated	<u>\$ 27,118,992</u>

NOTE 23. SUBSEQUENT EVENTS

Management has reviewed events subsequent to June 30, 2025 through December 1, 2025, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed in the financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Pension Liability (Asset)	0.010689975%	0.010504605%	0.011392844%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 6,529,883	\$ 7,215,650	\$ 6,763,639
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	11,991,520	13,310,530	11,717,349
Total	<u>\$ 18,521,403</u>	<u>\$ 20,526,180</u>	<u>\$ 18,480,988</u>
District's Covered Payroll	\$ 17,042,038	\$ 16,449,189	\$ 15,876,964
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	38.30%	43.87%	42.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.50%	73.15%	75.62%

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

FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015
0.010326916%	0.010336359%	0.010889567%	0.010278688%	0.010907799%	0.010327285%	0.0105887%
\$ 2,629,900	\$ 5,535,943	\$ 5,660,738	\$ 5,657,939	\$ 3,487,727	\$ 3,902,528	\$ 3,742,965
5,577,572	11,931,391	10,762,139	11,779,654	6,995,634	8,947,253	8,187,471
\$ 8,207,472	\$ 17,467,334	\$ 16,422,877	\$ 17,437,593	\$ 10,483,361	\$ 12,849,781	\$ 11,930,436
\$ 15,297,106	\$ 15,190,952	\$ 13,875,627	\$ 13,432,627	\$ 13,372,765	\$ 12,980,406	\$ 12,228,922
17.19%	36.44%	40.80%	42.12%	26.08%	30.06%	30.61%
88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2025

	2025	2024	2023
Contractually Required Contribution	\$ 702,652	\$ 578,674	\$ 543,451
Contribution in Relation to the Contractually Required Contribution	(702,652)	(578,674)	(543,451)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 18,836,055	\$ 17,500,581	\$ 16,373,313
Contributions as a Percentage of Covered Payroll	3.76%	3.31%	3.32%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

2022	2021	2020	2019	2018	2017	2016
\$ 511,698	\$ 435,726	\$ 418,161	\$ 374,743	\$ 347,373	\$ 356,882	\$ 326,134
(511,698)	(435,726)	(418,161)	(374,743)	(347,373)	(356,882)	(326,134)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 15,749,550	\$ 15,168,288	\$ 15,114,624	\$ 13,700,384	\$ 13,379,102	\$ 13,433,583	\$ 13,164,892
3.25%	2.87%	2.77%	2.74%	2.60%	2.66%	2.48%

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.015324308%	0.015533478%	0.01681859%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 4,651,162	\$ 3,438,849	\$ 4,027,046
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	5,827,843	4,149,500	4,912,363
Total	<u>\$ 10,479,005</u>	<u>\$ 7,588,349</u>	<u>\$ 8,939,409</u>
District's Covered Payroll	\$ 17,042,038	\$ 16,449,189	\$ 15,876,964
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	27.29%	20.91%	25.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.70%	14.94%	11.52%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. For example, the amounts for FY 2025 are for the measurement date of August 31, 2024, etc.

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

FY 2022 Plan Year 2021		FY 2021 Plan Year 2020		FY 2020 Plan Year 2019		FY 2019 Plan Year 2018		FY 2018 Plan Year 2017	
0.01615266%		0.01661149%		0.01583561%		0.01506167%		0.014548728%	
\$	6,230,805	\$	6,314,781	\$	7,488,853	\$	7,520,430	\$	6,326,696
83,478,900		8,485,552		9,951,012		11,930,644		10,955,979	
\$	89,709,705	\$	14,800,333	\$	17,439,865	\$	19,451,074	\$	17,282,675
\$	15,297,106	\$	15,190,952	\$	13,875,627	\$	13,432,627	\$	13,372,765
40.73%		41.57%		53.97%		55.99%		47.31%	
6.18%		4.99%		2.66%		1.57%		0.91%	

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2025

	2025	2024	2023
Contractually Required Contribution	\$ 148,004	\$ 138,497	\$ 143,824
Contribution in Relation to the Contractually Required Contribution	(148,004)	(138,497)	(143,824)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 18,836,055	\$ 17,500,581	\$ 16,373,313
Contributions as a Percentage of Covered Payroll	0.79%	0.79%	0.88%

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

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

2022	2021	2020	2019	2018	
\$ 135,925	\$ 125,311	\$ 112,969	\$ 105,233	\$ 98,599	
(135,925)	(125,311)	(112,969)	(105,233)	(98,599)	
\$ -	\$ -	\$ -	\$ -	\$ -	
\$ 15,749,550	\$ 15,168,288	\$ 15,114,624	\$ 13,700,384	\$ 13,379,102	
0.86%	0.83%	0.75%	0.77%	0.74%	

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2025

PENSION LIABILITY:

Changes of benefit terms:

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes of assumptions:

There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

OPEB LIABILITY:

Changes of benefit terms:

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

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. This change decreased the Total OPEB Liability.

COMBINING SCHEDULES

KRUM INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2025

Data Control Codes		211	244	255	263
		ESEA I, A Improving Basic Program	Career and Technical - Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition
ASSETS					
1110	Cash and Cash Equivalents	\$ 1,924	\$ -	\$ -	\$ -
1240	Due from Other Governments	3,288	-	-	-
1000	Total Assets	\$ 5,212	\$ -	\$ -	\$ -
LIABILITIES					
2160	Accrued Wages Payable	\$ 3,543	\$ -	\$ -	\$ -
2200	Accrued Expenditures	1,669	-	-	-
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	5,212	-	-	-
FUND BALANCES					
Committed Fund Balance:					
3545	Campus Activity	-	-	-	-
3000	Total Fund Balances	-	-	-	-
4000	Total Liabilities and Fund Balances	\$ 5,212	\$ -	\$ -	\$ -

289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	427 AP/IB Campus Awards	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 177	\$ 391	\$ 1,184	\$ 205	\$ -	\$ 94,471	\$ 98,352
-	-	-	-	-	-	3,288
\$ 177	\$ 391	\$ 1,184	\$ 205	\$ -	\$ 94,471	\$ 101,640
\$ 158	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,701
19	-	-	-	-	-	1,688
-	391	1,184	205	-	-	1,780
177	391	1,184	205	-	-	7,169
-	-	-	-	-	94,471	94,471
-	-	-	-	-	94,471	94,471
\$ 177	\$ 391	\$ 1,184	\$ 205	\$ -	\$ 94,471	\$ 101,640

KRUM INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes		211 ESEA I, A Improving Basic Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	160,523	109,986	40,876	30,709
5020	Total Revenues	160,523	109,986	40,876	30,709
EXPENDITURES:					
Current:					
0011	Instruction	153,142	9,911	27,795	22,337
0013	Curriculum and Instructional Staff Development	7,342	8,280	7,500	7,897
0021	Instructional Leadership	-	16,438	3,581	475
0023	School Leadership	-	4,102	2,000	-
0031	Guidance, Counseling, and Evaluation Services	-	71,255	-	-
0032	Social Work Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0052	Security and Monitoring Services	-	-	-	-
0061	Community Services	39	-	-	-
6030	Total Expenditures	160,523	109,986	40,876	30,709
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - July 1 (Beginning)	-	-	-	-
3000	Fund Balance - June 30 (Ending)	\$ -	\$ -	\$ -	\$ -

289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	427 AP/IB Campus Awards	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141,546	\$ 141,546
-	-	385,766	-	113,927	-	499,693
5,345	-	-	-	-	-	347,439
5,345	-	385,766	-	113,927	141,546	988,678
4,870	-	385,766	-	402	-	604,223
-	-	-	-	-	-	31,019
475	-	-	-	-	-	20,969
-	-	-	-	-	-	6,102
-	-	-	-	-	-	71,255
-	-	-	-	41,664	-	41,664
-	-	-	-	-	120,678	120,678
-	-	-	-	71,861	-	71,861
-	-	-	-	-	-	39
5,345	-	385,766	-	113,927	120,678	967,810
-	-	-	-	-	20,868	20,868
-	-	-	-	-	73,603	73,603
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,471	\$ 94,471

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REQUIRED T.E.A. SCHEDULES

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2025

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2016 and prior years	Various	Various	\$ 749,258,182
2017	1.170000	0.370000	663,877,662
2018	1.170000	0.370000	759,394,610
2019	1.170000	0.370000	832,332,662
2020	1.068350	0.323480	936,810,889
2021	1.046750	0.298332	960,343,533
2022	0.960300	0.384630	1,110,674,831
2023	0.942900	0.474600	1,429,867,160
2024	0.757500	0.474600	1,773,012,418
2025 (School year under audit)	0.755200	0.474600	1,993,855,971
1000 TOTALS			
8000 Total Taxes Refunded Under Section 26.1115, Tax Code			

(10) Beginning Balance 7/1/2024	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2025	(99) Taxes Refunded Under Section 26.1115c
\$ 117,334	\$	\$ 12,228	\$ 2,897	\$ (17,203)	\$ 85,006	
10,492		417	132	-	9,943	
13,594		429	136	-	13,029	
12,785		426	135	-	12,224	
10,959		766	232	307	10,268	
14,471		4,277	1,219	(978)	7,997	
57,754		9,483	3,798	(36,103)	8,370	
40,741		(20,461)	(10,299)	(51,164)	20,337	
287,728		(8,454)	(5,297)	(322,666)	(21,187)	
-	23,860,936	14,159,861	8,898,662	(509,680)	292,733	
<u>\$ 565,858</u>	<u>\$ 23,860,936</u>	<u>\$ 14,158,972</u>	<u>\$ 8,891,615</u>	<u>\$ (937,487)</u>	<u>\$ 438,720</u>	
						<u>\$ 12,319</u>

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 502,500	\$ 502,500	\$ 444,539	\$ (57,961)
5800 State Program Revenues	42,225	42,225	38,304	(3,921)
5900 Federal Program Revenues	790,000	830,435	777,031	(53,404)
5020 Total Revenues	1,334,725	1,375,160	1,259,874	(115,286)
EXPENDITURES:				
Current:				
0035 Food Services	1,334,725	1,375,160	1,178,116	197,044
6030 Total Expenditures	1,334,725	1,375,160	1,178,116	197,044
1200 Net Change in Fund Balances	-	-	81,758	81,758
0100 Fund Balance - July 1 (Beginning)	421,563	421,563	421,563	-
3000 Fund Balance - June 30 (Ending)	\$ 421,563	\$ 421,563	\$ 503,321	\$ 81,758

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 10,479,092	\$ 13,494,092	\$ 9,392,270	\$ (4,101,822)
5800 State Program Revenues	50,000	830,000	789,348	(40,652)
5020 Total Revenues	10,529,092	14,324,092	10,181,618	(4,142,474)
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	1,883,314	1,883,314	1,573,314	310,000
0072 Interest on Long-Term Liabilities	1,588,724	5,383,724	5,683,536	(299,812)
0073 Bond Issuance Cost and Fees	7,000	7,000	5,627	1,373
6030 Total Expenditures	3,479,038	7,274,038	7,262,477	11,561
1200 Net Change in Fund Balances	7,050,054	7,050,054	2,919,141	(4,130,913)
0100 Fund Balance - July 1 (Beginning)	9,501,864	9,501,864	9,501,864	-
3000 Fund Balance - June 30 (Ending)	\$ 16,551,918	\$ 16,551,918	\$ 12,421,005	\$ (4,130,913)

KRUM INDEPENDENT SCHOOL DISTRICT
USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2025

Section A: Compensatory Education Programs

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	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$1,386,641
AP4	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30)	\$1,012,468

Section B: Bilingual Education Programs

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	Total state allotment funds received for bilingual education programs during the district's fiscal year.	\$232,465
AP8	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PIC 25)	\$119,856

FEDERAL AWARDS SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Krum Independent School District, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise Krum Independent School District's basic financial statements, and have issued our report dated December 1, 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) to determine the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC
Denton, Texas

December 1, 2025

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Krum Independent School District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Krum Independent School District's major federal programs for the year ended June 30, 2025. Krum Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Krum Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Krum Independent School 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 each major federal program. Our audit does not provide a legal determination of Krum Independent School 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 Krum Independent School District's federal programs.

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 Krum Independent School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Krum Independent School District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Krum Independent School 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 Krum Independent School 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 Krum Independent School 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.

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC
Denton, Texas

December 1, 2025

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. Internal control over financial reporting:
Material weakness(es) identified: None
Significant deficiency(ies) identified that are not considered to be material weaknesses:
None reported
3. Noncompliance which is material to the financial statements: None
4. Internal controls over major federal programs:
Material weakness(es) identified: None
Significant deficiency(ies) identified that are not considered to be material weaknesses:
None reported
5. Type of auditor's report on compliance for major federal programs: Unmodified.
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)?: No
7. Major programs include:
Child Nutrition Cluster:
10.553 School Breakfast Program
10.555 National School Lunch Program - Cash Assistance
10.555 National School Lunch Program - Noncash Assistance
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Low risk auditee: No

II. Findings Related to the Financial Statements

None

III. Other Findings

None

KRUM INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2025

None

KRUM INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025

None

KRUM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	25610101061905	\$ 169,122
Career and Technical - Basic Grant	84.048A	254200327110009	109,986
ESEA, Title II, Part A - Teacher Principal Training	84.367A	25694501061905	43,246
Title III, Part A - English Language Acquisition	84.365A	25671001061905	30,709
ESEA, Title IV, Part A - Student Support	84.424A	25680101061905	2,618
Summer School LEP	84.369A	69552402	2,727
Total Passed Through Texas Education Agency			<u>358,408</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>358,408</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the Texas Department of Agriculture			
*School Breakfast Program	10.553	71402501	181,864
*National School Lunch Program - Cash Assistance	10.555	71302501	486,484
*National School Lunch Prog. - Non-Cash Assistance	10.555		108,683
Total Assistance Listing Number 10.555			<u>595,167</u>
Total Child Nutrition Cluster			<u>777,031</u>
Child & Adult Care Food Program - Non-Cash Assist.	10.558		<u>4,964</u>
Total Passed Through the Texas Department of Agriculture			<u>781,995</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>781,995</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,140,403</u></u>

*Clustered Programs

KRUM INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*.
- **General Fund** - is used to account for among other things, resources related to the United States Department of Defense ROTC program and the United States Department of Education's Impact Aid.
- **Special Revenue Funds** - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
- 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 grant funds were accounted for in a Special Revenue Fund or, in some instances, in the General Fund which are Governmental Fund type funds.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used in the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

- The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, 3 CFR Section 200.343 (b).
- Assistance listing numbers for commodity assistance are the Assistance listing numbers of the programs under which USDA donated the commodities.
- Indirect cost reimbursement for federal programs for this fiscal year was \$10,969.
- Reconciliation Information:

Amount reported on the Schedule of Expenditures of Federal awards	\$1,140,403
SHARS Revenue reported in the General Fund	56,993
Erate Reimbursement	<u>47,418</u>
Total Federal Program Revenue	<u>\$1,244,814</u>

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION



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[CLOSING DATE]

IN REGARD to the authorization and issuance of the “Krum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2026,” dated September 1, 2026, in the aggregate principal amount of \$[] (the “Bonds”), we have examined into their issuance by the Krum Independent School District (the “District”) solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds mature on August 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the “Order” and, jointly with the Pricing Certificate, the “Bond Order”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Order, an Escrow Agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, N.A. (the “Escrow Agent”), a special report of Frost CPA LLC, in conjunction with Public Finance Partners LLC (the “Verification Report”), and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District; and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium,

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Re: "Krum Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2026," dated September 1, 2026

or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and, assuming the due authorization, execution or acceptance, and delivery thereof by the Escrow Agent, is a binding and enforceable agreement in accordance with its terms, and the outstanding obligations being refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the Verification Report as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Bond Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of interests in a financial asset securitization investment trust, 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.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

HISTORY AND PURPOSE

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund was established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “Capacity Limits for the Guarantee Program”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General (the “Attorney General”) been requested to issue an opinion, with respect to its constitutional validity.

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

MANAGEMENT AND ADMINISTRATION OF THE FUND

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

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

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

(available on the PSF Corporation's website).

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

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

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

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

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

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

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

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

assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

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

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

ANNUAL DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND¹

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

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

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

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

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

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

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

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

PSF CORPORATION STRATEGIC ASSET ALLOCATION

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

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

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

Asset Class	Target Allocation	Range¹
Cash Equivalent	3.0%	N/A
Core Bonds	9.0%	+/- 5.0%
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%
Large Cap U.S. Equity	15.0%	+/- 5.0%
Small/Mid-Cap U.S. Equity	3.0%	+/- 5.0%
Non-U.S. Developed Equity	8.0%	+/- 5.0%
Absolute Return	6.0%	+/- 5.0%
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%
Real Estate	10.5%	+/- 5.0%
Natural Resources	4.0%	+/- 5.0%
Infrastructure	6.0%	+/- 5.0%

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

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

COMPARATIVE INVESTMENT SCHEDULE – PSF(CORP)

Fair Value (in millions) August 31, 2024 and 2023				
<u>ASSET CLASS</u>	August 31, <u>2025</u>	August 31, <u>2024</u>	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 3,732.4	\$ 3,651.3	\$ 81.1	2.2%
Domestic Large Cap	<u>7,860.0</u>	<u>8,084.6</u>	<u>(224.6)</u>	<u>-2.7%</u>
Total Domestic Equity	11,592.4	11,735.9	(143.5)	-1.2%
International Equity	<u>5,093.7</u>	<u>4,131.1</u>	<u>962.6</u>	<u>23.3%</u>
TOTAL EQUITY	16,686.1	15,867.0	819.1	5.2%
FIXED INCOME				
Domestic Fixed Income	-	-	-	-
U.S. Treasuries	-	-	-	-
Core Bonds	5,464.4	8,151.6	(2,687.2)	-33.0%
Bank Loans	3,908.4	2,564.1	1,344.3	52.4%
High Yield Bonds	1,569.2	2,699.5	(1,130.3)	-41.9%
Emerging Market Debt	-	-	-	-
TOTAL FIXED INCOME	10,942.0	13,415.2	(2,473.2)	-18.4%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,247.4	3,106.0	141.4	4.6%
Real Estate	6,300.8	6,101.0	199.8	3.3%
Private Equity	12,170.5	8,958.8	3,211.7	35.9%
Emerging Manager Program	-	-	-	-
Real Return	-	-	-	-
Private Credit	3,884.3	2,257.9	1,626.4	72.0%
Real Assets	<u>5,525.2</u>	<u>4,648.1</u>	<u>877.1</u>	<u>18.9%</u>
TOT ALT INVESTMENTS	31,128.2	25,071.8	6,056.4	24.2%
UNALLOCATED CASH	<u>1,335.0</u>	<u>2,583.2</u>	<u>(1,248.2)</u>	<u>-48.3%</u>
TOTAL PSF(CORP) INVESTMENTS	\$ 60,091.3	\$ 56,937.2	\$ 3,154.1	5.5%

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

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

INVESTMENT SCHEDULE - PSF(SLB)¹

	<u>Fair Value (in millions) August 31, 2025</u>
	<u>As of</u> <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 ^{(2), (3)}	<u>4,872.77⁽⁶⁾</u>
Total Investments ⁽⁴⁾	\$6,294.99
Cash in State Treasury ⁽⁵⁾	575.70
Total Investments & Cash in State	
Treasury	\$ 6,870.70

¹ Unaudited figures from Table 5 in the FY 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

² Historical Cost of investments at August 31, 2025 was: Sovereign Lands \$838,676.44; Discretionary Internal Investments \$830,739,719.64; Other Lands \$37,306,005.32; and Minerals \$13,437,552.03.

³ Includes an estimated 1,000,000.00 acres in freshwater rivers.

⁴ Includes an estimated 1,747,600.00 in excess acreage.

⁵ Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.

⁶ Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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

THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

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

THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2026 fiscal year, the ratio is 8.17%. At February 23, 2026, there were 182 active open-enrollment charter schools in the State and there were 1,027 charter school campuses authorized under such charters, though as of such date, 264 of such campuses are not currently serving students for various reasons; therefore, there are 958 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments as and when they become due from

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

The CDBG 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 CDBG 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 CDBG 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 "CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

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

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

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has

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

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

2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

CHARTER DISTRICT RISK FACTORS

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against

charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

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

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VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024	47,047,688,784	62,766,382,537
2025 ⁽²⁾	50,832,583,937	66,549,781,438

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

⁽²⁾ At August 31, 2025, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.3 million, and \$830.7 million, respectively, and market values of approximately \$4,872.7million, \$279.8 million, \$153.1 million, and \$989.2 million, respectively

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098 ⁽²⁾

⁽¹⁾ Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

⁽²⁾ At August 31, 2025 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$230,761,751,555, of which \$86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were \$143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

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Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of	Principal	No. of	Principal	No. of	Principal
	<u>8/31</u> <u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</u>	<u>Amount (\$)</u>
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682
2024	3,330	121,046,871,603	103	4,769,110,000	3433	125,815,981,603
2025 ⁽²⁾	3,444	138,140,381,098	113	5,800,574,000	3,557	143,940,955,098

⁽¹⁾ Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

⁽²⁾ At December 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$143,822,038,077 principal amount of bonds guaranteed under the Guarantee Program, representing 3,456 school district issues, aggregating \$137,938,824,077 in principal amount and 114 charter district issues, aggregating \$5,883,214,000 in principal amount. At December 31, 2025 the projected guarantee capacity available was \$32,174,623,697 (based on unaudited data, which is subject to adjustment).

DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2025

The following discussion is derived from the Annual Report for the year ended August 31, 2025, including the Message from the Chief Executive Officer of the Fund, the Management's Discussion and Analysis, and other schedules contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the PSF Corporation are referred to throughout this MD&A as the PSF(CORP). The Fund's non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2025, the PSF(CORP) net position was \$60.6 billion. During the year, the PSF(CORP) continued updating and implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation aims to pursue the objectives of the Fund at an acceptable risk level. The PSF(CORP) is invested in global markets and liquid and illiquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2025, net of fees, were 8.20%, 7.95%, and 7.40%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). See "Comparative Investment Schedule - PSF(CORP)" for the PSF(CORP) holdings as of August 31, 2025.

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include private credit, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2025 Annual Report which is included by reference herein.

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PSF Returns Fiscal Year Ended 8-31-2025¹

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

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

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

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, interest in real estate, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2025, \$2.2 billion was distributed to the ASF, \$600 million of which was distributed by the PSF(CORP) on behalf of the SLB.

OTHER EVENTS AND DISCLOSURES

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

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

PSF CONTINUING DISCLOSURE UNDERTAKING

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

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

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

ANNUAL REPORTS

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

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

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

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

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

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

EVENT NOTICES

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

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

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

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS

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

SEC EXEMPTIVE RELIEF

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

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