

PRELIMINARY OFFICIAL STATEMENT
Dated November 17, 2025

PRELIMINARY OFFICIAL STATEMENT

Dated November 17, 2025

NEW ISSUE - Book-Entry-Only

RATINGS: Enhanced/Unenhanced
Moody's: Applied For
PSF: Applied For
(See "OTHER INFORMATION – Ratings"
and "THE PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein)

In the opinion of Bond Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be an item of tax preference for purposes of the alternative minimum tax for the owners thereof who are individuals (see "TAX MATTERS" herein).

THE DISTRICT WILL DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"

\$7,110,000*

KINGSVILLE INDEPENDENT SCHOOL DISTRICT

(A Political Subdivision of the State of Texas located in Kleberg County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2025

Dated: December 15, 2025

Interest to accrue/accretes from Delivery Date

Due: February 15,

as shown on inside cover

PAYMENT TERMS . . . The \$7,110,000* Kingsville Independent School District Unlimited Tax Refunding Bonds, Series 2025 (the "Bonds") will be issued in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date (defined herein) and will be payable initially on February 15 and August 15 of each year commencing February 15, 2026 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 definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the 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 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). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (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 Chapter 1207, Texas Government Code, as amended, ("Chapter 1207"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the Kingsville Independent School District (the "District" or "Issuer") on October 7, 2025. As permitted by the provisions of Chapter 1207, the Board, in the Bond Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate establishing the pricing terms for the Bonds (the "Approval Certificate"). The Bond Order and the Approval Certificate are collectively referred to herein as the "Order". The Bonds are direct obligations of the District payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District as provided in the Order (see "THE BONDS – Authority for Issuance and Purpose"). The District has applied to the Texas Education Agency for conditional approval of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for discussion of recent developments in Texas law affecting the financing of public school districts in Texas).

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (1) refund certain of the District's currently outstanding bonds, of the respective series, in the maturities, and in the amounts described on SCHEDULE I hereto (collectively, the "Refunded Bonds") and (2) pay costs of issuance of the Bonds. The Refunded Bonds will be called for redemption on the respective call dates reflected in SCHEDULE I.

See following page for Maturity Schedule, Interest Rates, Yields, and CUSIP Numbers

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Winstead PC, San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about December 30, 2025 (the "Delivery Date").

OPPENHEIMER & CO.

FHN FINANCIAL CAPITAL MARKETS

*Preliminary, subject to change.

MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

\$7,110,000*
KINGSVILLE INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Kleberg County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2025

CUSIP⁽¹⁾ Prefix: 496800

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP Suffix</u>
2/15/2028	\$ 275,000			
2/15/2029	1,835,000			
2/15/2030	1,935,000			
2/15/2031	2,035,000			
2/15/2032	1,030,000			

(Interest to accrue from the Delivery Date.)

REDEMPTION . . . The Bonds are not subject to optional redemption prior to stated maturity (see “THE BONDS – No Optional Redemption of the Bonds”).

*Preliminary, subject to change.

- ⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of The American Bankers Association. No assurance can be given that the CUSIP number for the Bonds will remain the same after the date of delivery of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the District, the Financial Advisor (as defined herein), nor the Underwriters are responsible for the selection, changes to, or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

This Official Statement, which includes the cover page, Schedule I, and the Appendices thereto does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon.

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

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein 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.

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 THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

Neither the District, the Underwriters, nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its Book-Entry-Only system or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

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

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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

[The remainder of this page intentionally left blank.]

TABLE OF CONTENTS

OFFICIAL STATEMENT	
Description of the Bonds	i
SELECTED FINANCIAL INFORMATION	v
GENERAL FUND CONSOLIDATED STATEMENT SUMMARY	v
DISTRICT ADMINISTRATION	
Elected Officials.....	vi
Selected Administrative Staff.....	vi
Consultants and Advisors	vi
INTRODUCTION	1
PLAN OF FINANCE	1
THE BONDS.....	2
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.....	6
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS.....	6
CURRENT PUBLIC SCHOOL FINANCE SYSTEM... ..	7
THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE KINGSVILLE INDEPENDENT SCHOOL DISTRICT.....	11
AD VALOREM TAX PROCEDURES	11
TAX RATE LIMITATIONS	15
AD VALOREM TAXATION	
Table 1 - Valuation, Exemptions and Tax Supported Debt	17
Table 2 - Taxable Assessed Valuations by Category... ..	18
Table 3 - Valuation and Tax Supported Debt History .	19
Table 4 - Tax Rate, Levy and Collection History	19
Table 5 - Ten Largest Taxpayers.....	20
Table 6 - Estimated Overlapping Debt.....	20
DEBT INFORMATION	
Table 7 - Pro-Forma Tax Supported Debt Service Requirements	21
Table 8 - Estimated Interest and Sinking Fund Budget Projection	22
Table 9 - Authorized But Unissued Unlimited Tax Bonds	22
Table 10 - Other Obligations.....	22
FINANCIAL INFORMATION	
Table 11 - General Fund Revenues and Expenditures .	23
Financial Policies	24
Investments	24
Table 12 - Current Investments	26
TAX MATTERS.....	26
OTHER INFORMATION	
Ratings	28
Effect of Sequestration	28

Litigation.....	28
Registration and Qualification of Bonds for Sale	28
Legal Investments and Eligibility to Secure Public Funds in Texas.....	28
Legal Matters	28
Authenticity of Financial Data and Other Information	29
Continuing Disclosure of Information	29
Financial Advisor.....	30
Verification of Arithmetical Mathematical Computations	30
Underwriting.....	30
Forward Looking Statements	31
Miscellaneous	31

SCHEDULE I – SCHEDULE OF REFUNDED BONDS

APPENDICES	
General Information Regarding the District.....	A
Kingsville Independent School District Annual Financial and Compliance Report	B
Form of Bond Counsel's Opinion	C
The Permanent School Fund Guarantee Program.....	D

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/30	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax Debt	Per Capita Tax Debt	Ratio Debt to Taxable Assessed Valuation
2022	25,147	\$ 939,567,309	\$ 37,363	\$ 54,735,000	\$ 2,177	5.83%
2023	22,728	940,573,890	41,384	52,260,000	2,299	5.56%
2024	22,131	1,014,867,745	45,857	49,445,000	2,234	4.87%
2025	21,518	1,014,572,224	47,150	44,640,000	2,075	4.40%
2026	21,518 ⁽²⁾	1,103,496,291	49,407	38,680,000 ⁽³⁾	1,798	3.51%

⁽¹⁾ Source: The Municipal Advisory Council of Texas – Texas Municipal Reports and District estimates.

⁽²⁾ FYE 2026 population held constant for purposes of illustration.

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

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY⁽¹⁾

	For Fiscal Year Ended August 31,				
	2024	2023	2022	2021	2020
Beginning Balance	\$ 14,239,823	\$ 12,677,179 ⁽²⁾	\$ 8,938,388	\$ 6,188,178 ⁽²⁾	\$ 9,739,506
Total Revenues	28,672,507	29,986,306	30,772,532	30,308,262	28,404,538
Total Expenditures	(31,631,994)	(28,900,669)	(26,770,728)	(28,214,901)	(31,153,786)
Other Financing Sources (Uses)	(571,128)	477,007	(263,304)	656,849	(900,000)
Special Item - Resources	-	-	-	-	97,901
Ending Balance	<u>\$ 10,709,208</u>	<u>\$ 14,239,823</u>	<u>\$ 12,676,888</u>	<u>\$ 8,938,388</u>	<u>\$ 6,188,159</u>

Source: The District's audited annual financial statements.

⁽¹⁾ The General Fund Balance for the fiscal year end August 31, 2025, is estimated to be approximately \$5,888,499. Estimated change from 2024 in General Fund Balance due to the decrease in student enrollment, above-ratio staffing counts, high health insurance costs, property insurance costs and the discrepancy between the Texas Comptroller property values and the Kleberg County property values. The District is taking steps to address each of these issues and expects an gradual increase in the General Fund Balance.

⁽²⁾ Beginning fund balance restated.

For additional information regarding the District, please contact:

Dr. Luz M. Martinez
Superintendent of Schools

Dr. Peter Pitts, Ed.D.
Chief Financial Officer
Kingsville Independent School District
P.O. Box 78364
Kingsville, Texas 78040
361-592-3387 - Telephone
361-595-7805 - Fax

or

Robert A. Tijerina
Thomas Lastrapes
Tijerina Financial Consulting LLC
8000 West Interstate 10
Suite 610
San Antonio, Texas 78230
210-366-8033 - Telephone

DISTRICT ADMINISTRATION

ELECTED OFFICIALS

Board Member	Term Expires	Occupation
Joseph Ruiz President	May 2028	Educator
Jacob Perez, III Vice President	May 2028	Retired
Martin E. Chapa Secretary	May 2026	Retired
Joe Mireles Member	May 2026	Retired
Brian Coufal Member	May 2026	Retired
David R. Garcia Member	May 2028	County Employee
Delma Salinas Member	May 2028	Retired

SELECTED ADMINISTRATIVE STAFF

	Position	Length of Service with the District
Dr. Luz M. Martinez	Superintendent	2 months
Dr. Peter Pitts	Chief Financial Officer	11 years
Michelle Butler	Director of Food Services	15 years

CONSULTANTS AND ADVISORS

Auditors	Raul Hernandez & Company P.C. Corpus Christi, Texas
Financial Advisor	Tijerina Financial Consulting LLC San Antonio, Texas
Bond Counsel	Escamilla & Poneck, LLP San Antonio, Texas

[The remainder of this page intentionally left blank.]

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO**

\$7,110,000*
**KINGSVILLE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2025**

INTRODUCTION

This Official Statement, which includes Schedules I and the Appendices hereto, provides certain information regarding the issuance of \$7,110,000* Kingsville Independent School District Unlimited Tax Refunding Bonds, Series 2025 (the “Bonds”). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the Kingsville Independent School District (the “District” or “Issuer”) on October 7, 2025, except as otherwise indicated herein. As permitted by Chapter 1207 (defined herein), in the Bond Order, the Board delegated the authority to certain District officials (each an “Authorized Official”) to execute an approval certificate establishing the pricing terms of the Bonds (the “Approval Certificate”). The Bond Order and the Approval Certificate are referred to herein collectively as the “Order”.

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

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Tijerina Financial Consulting LLC, San Antonio, Texas, in electronic format or upon payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement and the Escrow Agreement (defined herein) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “OTHER INFORMATION - Continuing Disclosure of Information” for a description of the District’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision located in Kleberg County, Texas. The District is governed by the seven-member Board who serve staggered four-year terms with elections being held in May of each even numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

The District is approximately 93 square miles in area (see Appendix A – “General Information Regarding the District”).

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (1) refund certain of the District’s currently outstanding bonds, of the respective series, in the maturities, and in the amounts described on SCHEDULE I hereto (collectively, the “Refunded Bonds”) and (2) pay costs of issuance of the Bonds.

REFUNDED BONDS . . . The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment, principal payment, and redemption dates of such obligations as shown on SCHEDULE I from funds to be deposited with BOKF, NA, Dallas, Texas, 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 certain proceeds of the sale of the Bonds to the Underwriters, along with other lawfully available funds of the District, if any, the District will deposit with the Escrow Agent in an escrow fund (the “Escrow Fund”) established therewith under the Escrow Agreement the amount necessary to accomplish the discharge and final payment of the Refunded Bonds.

Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

The District will give irrevocable instructions to provide notice, if any, to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money held under the Escrow Agreement will be made available to redeem the Refunded Bonds. The Refunded Bonds will be called for redemption on the respective call dates reflected in SCHEDULE I.

* Preliminary, subject to change.

The Arbitrage Group, Inc., Brenham, Texas (the “Verification Agent”), will verify at the time of the delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules prepared by the District’s financial advisor that demonstrate that certain securities authorized by State law and the orders authorizing the Refunded Bonds to be acquired and held in the Escrow Fund under the Escrow Agreement (the “Escrowed Securities”) will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **The Escrow Fund and the maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds.**

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effectuated the defeasance of the Refunded Bonds in accordance with law. In the opinion of Bond Counsel, in reliance upon the report of the Verification Agent (the “Report”), firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and, therefore the Refunded Bonds will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds therefore provided in the Escrow Agreement (see “APPENDIX C – Form of Bond Counsel’s Opinion”).

Upon defeasance of the Refunded Bonds the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee Program.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of and interest on the Refunded Bonds if, for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are being issued by the District in denominations of \$5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date, as defined on the front cover of this Official Statement, and will be payable on February 15, 2026, and August 15 and February 15 thereafter until stated maturity, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will mature on the dates and in the principal amounts, and will bear interest at the rates set forth in page ii of this Official Statement.

This definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity 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. No physical delivery of the Bonds will be made to the owners thereof. 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 (i) authority conferred by the Constitution and the laws of the State of Texas (“Texas” or the “State”), particularly Chapter 1207, Texas Government Code, as amended (“Chapter 1207”) and (ii) the Order.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. **Additionally, the District has applied to the Texas Education Agency for conditional approval of the Bonds to be guaranteed by the Permanent School Fund of Texas which guarantee will automatically become effective when the Attorney General of the State approves the issuance of the Bonds (see “PERMANENT SCHOOL FUND GUARANTEE” below).**

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has made an application for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). Subject to the District’s approval of its application and subject to meeting certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State upon approval of the Bonds by the Attorney General of the State. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

See THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM and “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

NO OPTIONAL REDEMPTION OF THE BONDS . . . The Bonds are not subject to optional redemption prior to stated maturity.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book Entry Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor, and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest 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, 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 S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 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).

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered and the Bonds will be subject to the transfer, exchange and registration provisions as set forth in the Order and summarized under "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, payment or 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 BOKF, NA, Dallas, Texas. 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 or trust company organized under the laws of the State of Texas 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 paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and Maturity amount of the Bonds will be paid to the registered owner at the stated maturity or, with respect to the Bonds, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of the principal and Maturity Amount of the Bonds and interest on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System."

SUCCESSOR PAYING AGENT/REGISTRAR . . . The District reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying Agent/Registrar selected by the District shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will 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 will 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. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which must be 15 days after the Special Record Date) will 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 holder 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.

MUTILATED, DESTROYED, LOST, OR STOLEN BONDS . . . The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

DEFEASANCE OF BONDS . . . The Bond Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Governmental Obligations (defined below), that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment; provided, however, that the sufficiency of deposits shall be certified by an independent public accounting firm, the District's Financial Advisor, or another qualified third party in connection with a defeasance of the Bonds. The District has additionally reserved the right in the Bond Order, subject to satisfying the requirements of (1), (2) and (3) above, as applicable, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The Bond Order provides that "Governmental Obligations" 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 the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (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 the governing body of the District adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. The District may limit these securities as deemed necessary in connection with the sale of the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Governmental Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Bond Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if 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 stated 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.

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.

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

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

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 the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District 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, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so 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 ruled in *Tooke v. City of Mexia* 197 S.W. 3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of 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 and by general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	
[Net] Reoffering Premium	
Total Sources of Funds	
Uses:	
Deposit to Escrow Fund	
Cost of Issuance	
Underwriters' Discount	
Total Uses of Funds	

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, et.al v. The Texas Taxpayer and Student Fairness Coal., et al.*, 490 S.W. 3d 826 (Tex. 2016). 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.

POSSIBLE EFFECTS OF CHANGES IN LAW ON DISTRICT BONDS . . . The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing System was “undeniably imperfect.” While not compelled by the *Morath* 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 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.”

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

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

Local funding 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 for the purpose of paying the school district’s debt service. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS - I&S Tax Rate Limitations” herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

2025 LEGISLATIVE SESSION

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The Texas Legislature (the “Legislature”) meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor of Texas (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 for a special session on June 23, 2025, which began on July 21, 2025, and ended on August 15, 2025. A second special session was called and began on August 15, 2025 and ended on September 4, 2025. Additional special sessions may be called by the Texas Governor.

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System (as defined herein) and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Voters approved at a Statewide election held on November 4, 2025, legislation passed by both houses of the Legislature and signed by the Governor to increase: (1) the State mandated general homestead exemption of the appraised value for all homesteads from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the “production of income” from \$2,500 to \$125,000. Additionally, both houses of the Legislature passed and the Governor signed legislation that would

authorize roughly \$8.5 billion in funding for public schools and would provide districts with a \$55 per-student increase to their base funding, as well as provide 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 are homeschooled. The legislation becomes effective September 1, 2025, when the state fiscal biennium begins for purposes of this program, and the amount spent for purposes of the program for such biennium may not exceed \$1 billion. The legislation applies beginning with the 2026-2027 school year. Beginning on September 1, 2027, the legislation requires that the amount appropriated for purposes of the program for a state fiscal biennium must be established by the legislature by appropriation for that biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

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

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

State Compression Percentage. The "State Compression Percentage" is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the least of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of 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's MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. For the 2025-2026 school year, the Legislature reduced the maximum MCR, establishing \$0.6322 as the maximum rate and \$0.5689 as the floor; provided, however, that MCRs for such year may be adjusted as set forth in the next two paragraphs.

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

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for the given 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 discussed herein), and in some instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations”), Tier Two funding may not be used for the payment of debt service or capital outlay.

The current Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2026-2027 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district’s Tier One entitlement under the Foundation School Program.

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 plus the guaranteed yield increment adjustment (the “GYLA”) 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 GYLA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYLA 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), and (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by the district’s Basic Allotment, is a school district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

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

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 0.0284. 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 of \$49.72 per student in WADA for each Copper Penny levied.

Existing Debt Allotment, Instructional Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium.

To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2026-2027 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were \$35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the 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 that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption. See "— State Funding for School Districts" and "— Tax Rate and Funding Equity".

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. During the 2025 Legislative 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 Commissioner may adjust a school district's funding entitlement if the funding formulas used to determine the school district's entitlement result in an unanticipated loss or gain for a school district. Any such adjustment requires preliminary approval from the Legislative Budget Board and the office of the Governor, and such adjustments may only be made through the 2020-2021 school year.

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

For the 2026-2027 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". 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 Commissioner must reduce the school district’s local revenue level to the level that would produce the school district’s guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district’s existing debt.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE KINGSVILLE INDEPENDENT SCHOOL DISTRICT

The District’s wealth per student for the 2025-26 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, 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 wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted level in future school years, it will 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.

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Kleberg County Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District as of January 1 of each year and on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal

District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS . . . 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. Voters approved at a Statewide election held on November 4, 2025, legislation passed by both houses of the Legislature to increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000.

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

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.

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

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

Voters approved at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session to provide a person to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of 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. The increased exemption becomes effective January 1, 2026.

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

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the District, *see* “TAX RATE LIMITATIONS – THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein.

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

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

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

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 June 6, 1961 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, 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 (subject to compression of the nine available copper pennies in a year in which the State increases the guaranteed yield on those pennies) and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "TAX RATE LIMITATIONS - Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" herein).

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

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$25,000. The disabled are also granted an additional exemption of \$10,000.

The District taxes nonbusiness personal property.

The District does not allow split payments.

The District does not have any freeport property.

The District currently has no tax abatements.

[The remainder of this page intentionally left blank.]

TABLE 1 – VALUATION EXEMPTIONS AND TAX SUPPORTED DEBT

2025 Market Valuation Established by Kleberg County Appraisal District ⁽¹⁾		\$ 2,192,016,249
Less Exemptions/Reductions at 100% Market Value:		
Productivity Loss	192,859,009	
Homestead Cap	103,272,284	
23.231 Cap	68,105,799	
Disabled Persons/Spouse	335,290	
Disabled Veterans/Surviving Spouse	21,715,756	
Residential Homestead Exemptions (State Mandated)	315,064,663	
Low Income Housing	1,939,545	
Member Armed Services Surviving Spouses	190,070	
Pollution Control	1,772,670	
First Responder Surviving Spouse	60,265	
Total Exempt Property	307,373,413	
Charitable	2,665,758	
Solar	794,740	
PPV	455,740	
Over-65 Homestead Exemption Loss	8,473,497	1,025,078,499
2025 Taxable Assessed Valuation		\$ 1,166,937,750
Deduct: Loss of Value for Over 65 Frozen Accounts & Transfer Adjustment		63,441,459
2025 Net Taxable Assessed Valuation (after freeze)		\$ 1,103,496,291
Debt Payable from Ad Valorem Taxes		
Unlimited Tax Debt:		
Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012	\$ 6,790,000	
Unlimited Tax Refunding Bonds, Series 2014	165,000	
Unlimited Tax Refunding Bonds, Series 2015	- ⁽¹⁾	
Unlimited Tax Refunding Bonds, Series 2016	925,000 ⁽¹⁾	
Unlimited Tax Refunding Bonds, Series 2017	3,890,000	
Unlimited Tax Refunding Bonds, Series 2019	8,950,000	
Unlimited Tax Refunding Bonds, Series 2020	3,760,000	
Unlimited Tax Refunding Bonds, Series 2021	9,030,000	
The Bonds	7,110,000 ⁽²⁾	\$ 40,620,000 ⁽²⁾
Total Ad Valorem Tax Obligations		\$ 40,620,000
Interest and Sinking Fund Balance (as of August 31, 2025)		\$ 329,392 ⁽³⁾
Ratio Funded Tax Supported Net Debt to Taxable Assessed Valuation (after freeze)		3.68%
2025 Estimated Population	21,518	
Per Capita Taxable Assessed Valuation	\$ 51,282	
Per Capita Total Outstanding Debt	\$ 1,888	

⁽¹⁾ Excludes the Refunded Bonds. Preliminary, subject to change.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ Unaudited.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ⁽¹⁾

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 930,220,029	42.44%	\$ 743,984,198	37.01%	\$ 693,592,083	38.50%
Real, Residential, Multi-Family	165,633,784	7.56%	173,281,674	8.62%	150,855,698	8.37%
Real, Vacant Lots/Tracts	14,920,846	0.68%	14,237,629	0.71%	10,990,390	0.61%
Real Acreage (Land Only)	199,142,693	9.08%	178,232,269	8.87%	122,593,520	6.81%
Real, Farm and Ranch Improvements	40,563,138	1.85%	35,489,468	1.77%	31,681,688	1.76%
Real, Commercial	257,656,558	11.75%	232,540,821	11.57%	232,318,684	12.90%
Real, Industrial	5,122,520	0.23%	4,407,110	0.22%	4,264,920	0.24%
Real, Oil, Gas, and Other Mineral Reserves	3,063,065	0.14%	3,129,094	0.16%	12,688,669	0.70%
Real and Tangible Personal, Utilities	121,032,239	5.52%	126,851,430	6.31%	115,322,610	6.40%
Tangible Personal, Commercial and Industrial	122,024,380	5.57%	182,873,670	9.10%	127,038,390	7.05%
Tangible Personal, Other	6,253,230	0.29%	4,971,870	0.25%	4,593,990	0.26%
Special Inventory	9,117,450	0.42%	11,644,190	0.58%	11,875,490	0.66%
Real Property, Inventory	1,937,220	0.09%	1,691,380	0.08%	2,286,520	0.13%
Total Exempt Property	315,329,097	14.39%	297,134,640	14.78%	281,347,130	15.62%
Total Appraised Value Before Exemptions	\$ 2,192,016,249	100.00%	\$ 2,010,469,443	100.00%	\$ 1,801,449,782	100.00%
Less: Total Reductions	(1,025,078,499)		(856,431,110)		(743,651,657)	
Less: Loss Value for over 65 Freeze	(63,441,459)		(49,466,109)		(42,930,380)	
Taxable Assessed Valuation	<u>\$ 1,103,496,291</u>		<u>\$ 1,104,572,224</u>		<u>\$ 1,014,867,745</u>	

Category	Taxable Appraised Value For Fiscal Year Ended August 31,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 618,254,981	39.51%	\$ 585,514,788	39.45%
Real, Residential, Multi-Family	103,929,657	6.64%	104,823,107	7.06%
Real, Vacant Lots/Tracts	8,623,770	0.55%	7,897,740	0.53%
Real Acreage (Land Only)	116,789,200	7.46%	92,858,238	6.26%
Real, Farm and Ranch Improvements	25,720,188	1.64%	25,525,958	1.72%
Real, Commercial	189,675,475	12.12%	196,733,921	13.26%
Real, Industrial	3,650,820	0.23%	3,697,950	0.25%
Real, Oil, Gas, and Other Mineral Reserves	3,431,894	0.22%	1,092,940	0.07%
Real and Tangible Personal, Utilities	106,165,655	6.78%	100,948,225	6.80%
Tangible Personal, Commercial and Industrial	128,021,580	8.18%	123,504,450	8.32%
Tangible Personal, Other	4,546,330	0.29%	4,496,510	0.30%
Special Inventory	11,970,730	0.77%	10,679,750	0.72%
Real Property, Inventory	695,200	0.04%	1,377,400	0.09%
Total Exempt Property	243,256,632	15.55%	224,903,545	15.15%
Total Appraised Value Before Exemptions	\$ 1,564,732,112	100.00%	\$ 1,484,054,522	100.00%
Less: Total Reductions	(541,801,073)		(449,647,258)	
Less: Loss Value for over 65 Freeze	(82,357,149)		(94,839,955)	
Taxable Assessed Valuation	<u>\$ 940,573,890</u>		<u>\$ 939,567,309</u>	

⁽¹⁾ Source: the Comptroller's Office. The above figures reflect the taxable appraised values as stated at the beginning of each tax year to the State Property Tax Board. Any difference between these figures and taxable assessed valuations are due to adjustments and corrections to respective tax rolls.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End of Year	Ratio Funded Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2017	23,216	\$ 746,667,353	32,162	\$ 65,629,993	8.79%	\$ 2,827
2018	22,790	789,076,141	34,624	63,484,993	8.05%	2,786
2019	23,331	813,458,875	34,866	63,401,767	7.79%	2,717
2020	23,331	836,973,330	35,874	61,660,000	7.37%	2,643
2021	25,259	874,296,274	34,613	57,620,000	6.59%	2,281
2022	25,147	939,567,309	37,363	54,735,000	5.83%	2,177
2023	22,728	940,573,890	41,384	52,260,000	5.56%	2,299
2024	22,131	1,014,867,745	45,857	49,445,000	4.87%	2,234
2025	21,518	1,014,572,224	47,150	44,640,000	4.40%	2,075
2026	21,518 ⁽²⁾	1,103,496,291	51,282	38,680,000 ⁽³⁾	3.51%	1,798

⁽¹⁾ Source: The Municipal Advisory Council of Texas – Texas Municipal Reports and District estimates.

⁽²⁾ FYE 2026 population held constant for purposes of illustration.

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

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ending	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	\$ 1.51890	\$ 1.17000	\$ 0.34890	\$ 11,383,000	97.22%	99.28%
2017	1.51890	1.17000	0.34890	11,923,809	95.70%	98.15%
2018	1.51890	1.17000	0.34890	11,985,278	96.07%	99.02%
2019	1.51890	1.17000	0.34890	12,751,282	96.85%	99.02%
2020	1.51405	1.06350 ⁽¹⁾	0.45055	12,712,788	96.52%	89.15%
2021	1.51890	1.05330	0.46560	13,237,496	95.62%	97.68%
2022	1.51890	1.02650	0.49240	15,183,487	94.88%	98.56%
2023	1.51890	1.02650	0.49240	15,191,200	95.26%	97.85%
2024	1.41040	0.78290	0.62750	14,723,542	88.83%	90.88%
2025	1.41040	0.75520	0.65520	15,578,887 ⁽¹⁾	In process of collections	

Source: Kingsville Independent School District's Audited Financial Statements.

⁽¹⁾ See "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" herein regarding maximum M&O tax rates.

[The remainder of this page intentionally left blank.]

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2025 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
AEP Texas Inc.	Utility	\$ 59,942,790	5.43%
ETC Texas Processing	Gas Pipeline	25,549,380	2.32%
Net Mexico Pipeline Partners	Gas Pipeline	22,070,310	2.00%
Rockstar Kingsville Pointe LLC	Real Estate	14,932,600	1.35%
KL Phase 1 Owner Ltd.	Real Estate	13,984,220	1.27%
Rockstar Oak Tree LLC	Real Estate	13,840,490	1.25%
Javeline Station Apartments LLC	Real Estate	10,196,700	0.92%
Kingsville Square LTD	Real Estate	9,954,800	0.90%
LFL Properties Kingsville LLC	Real Estate	9,739,350	0.88%
Union Pacific Railroad Company	Railroad	8,758,850	0.79%
		<u>\$ 188,969,490</u>	<u>17.12%</u>

The top ten taxpayers in the District currently account for over 17.12% of the District's tax base, with the majority of such property comprised of minerals and related business activities. Adverse developments in economic conditions, especially in the oil and natural gas industry, could adversely impact the businesses that own mineral properties in the District and the tax values in the District, resulting in less local tax revenue. Oil and gas prices in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. In addition, the valuation of power utilities within the State, as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; private power generation facilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Defaults & Remedies" "AD VALOREM TAX PROCEDURES" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT."

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Certain expenditures of the various taxing bodies 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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2025 Taxable Assessed Valuation	Tax Rate	Tax Debt as of 12/2/2025	Estimated %	District's Overlapping Funded Debt as of 12/2/2025	Authorized but Unissued Tax Debt as of 12/2/2025
Kingsville ISD	\$ 1,103,496,291	\$ 1.41040	\$40,620,000	100.00%	\$ 40,620,000 ⁽¹⁾	\$ -
Kleberg County	2,089,006,645	0.77190	8,545,000	61.91%	5,290,210	-
City of Kingsville	1,316,713,794	0.77000	36,361,000	97.94%	35,611,963	-
South Texas Water Authority	1,819,835,627	0.06570	2,405,000	45.29%	1,089,225	-
Total Direct and Overlapping Tax Debt					\$ 82,611,397 ⁽¹⁾	
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation					7.49%	
Per Capita Overlapping Debt					\$ 3,839	

⁽¹⁾ Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 – PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FYE	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Less: Federal Subsidy ⁽³⁾	Total Debt Service Requirements	% of Principal Retired
8/31	Principal	Interest	Total	Principal	Interest	Total			
2026	\$ 1,940,000	\$ 1,193,055	\$ 3,133,055	\$ -	\$ 222,188	\$ 222,188	\$ (249,716)	\$ 3,105,527	
2027	2,035,000	1,096,105	3,131,105	-	355,500	355,500	(249,716)	3,236,889	
2028	2,145,000	1,003,393	3,148,393	275,000	348,625	623,625	(249,716)	3,522,302	
2029	1,220,000	932,218	2,152,218	1,835,000	295,875	2,130,875	(249,716)	4,033,377	
2030	1,270,000	874,868	2,144,868	1,935,000	201,625	2,136,625	(249,716)	4,031,777	31.2%
2031	1,325,000	822,343	2,147,343	2,035,000	102,375	2,137,375	(249,716)	4,035,002	
2032	1,460,000	1,850,525	3,310,525	1,030,000	25,750	1,055,750	(264,810)	4,101,465	
2033	1,530,000	1,774,783	3,304,783	-	-	-	(264,810)	3,039,973	
2034	9,510,000	533,320	10,043,320	-	-	-	(132,405)	9,910,915	
2035	2,805,000	314,950	3,119,950	-	-	-	-	3,119,950	79.6%
2036	2,900,000	226,018	3,126,018	-	-	-	-	3,126,018	
2037	2,620,000	141,513	2,761,513	-	-	-	-	2,761,513	
2038	780,000	86,874	866,874	-	-	-	-	866,874	
2039	815,000	56,290	871,290	-	-	-	-	871,290	
2040	845,000	24,440	869,440	-	-	-	-	869,440	99.2%
2041	100,000	6,890	106,890	-	-	-	-	106,890	
2042	100,000	4,240	104,240	-	-	-	-	104,240	
2043	110,000	1,458	111,458	-	-	-	-	111,458	100.0%
	<u>\$ 33,510,000</u>	<u>\$ 10,943,279</u>	<u>\$ 44,453,279</u>	<u>\$ 7,110,000</u>	<u>\$ 1,551,938</u>	<u>\$ 8,661,938</u>	<u>\$ (2,160,320)</u>	<u>\$ 50,954,896</u>	

⁽¹⁾ Excludes the Refunded Bonds. Preliminary, subject to change.

⁽²⁾ Interest calculated at an assumed rate for purposes of illustration. Preliminary, subject to change.

⁽³⁾ Represents a subsidy, estimated at 94.3% of the interest payments in FYE 2021-2030 and 100 % thereafter, on the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012, which is expected to be paid to the District by the U.S. Treasury (see "OTHER INFORMATION - EFFECTS OF

TABLE 8 - ESTIMATED INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated Tax Supported Debt Service Requirements, Fiscal Year End 8/31/2026		\$ 3,105,527 ⁽¹⁾
Interest and Sinking Fund Balance at 8/31/25	329,392 ⁽²⁾	
Estimated Interest and Sinking Fund Tax Levy @ 99% Collections	6,882,074	
Estimated Existing Debt Allotment/ Instructional Facilities Allotment State Aid	-	7,211,466
Estimated Balance at 8/31/26		<u>\$ 4,105,939</u>

NOTE: The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for Local School Districts." herein).

⁽¹⁾ Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

⁽²⁾ Unaudited.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

The District does not have any authorized but unissued unlimited tax bonds.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . After the issuance of the Bonds, the District does not anticipate the issuance any additional unlimited tax debt in fiscal year ending 2025; however, the District may also incur other financial obligations, including maintenance tax notes payable from the collection of maintenance taxes, public property finance contractual obligations, delinquent maintenance tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

TABLE 10 – OTHER OBLIGATIONS . . . Commitments under capitalized lease agreements for equipment provide for minimum future lease payments as of August 31, 2024, as follows:

Year Ending August 31,	Principal	Interest	Total
2025	\$ 45,804	\$ 5,740	\$ 51,544
2026	48,027	3,517	51,544
2027	47,832	3,711	51,543
Totals	<u>\$ 141,663</u>	<u>\$ 12,968</u>	<u>\$ 154,631</u>

Commitments under Subscription Based Information Technology Agreements payments as of August 31, 2024, as follows:

Year Ending August 31,	Principal	Interest	Total
2025	\$ 44,980	\$ 4,758	\$ 49,738
2026	41,466	3,274	44,740
Totals	<u>\$ 86,446</u>	<u>\$ 8,032</u>	<u>\$ 94,478</u>

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 6.4% of gross earnings and .65% to the retirement health insurance plan, 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 the retirement plan, see Appendix B, "Kingsville Independent School District Annual Financial Report for Fiscal Year Ended August 31, 2024" - Note H).

[The remainder of this page intentionally left blank.]

FINANCIAL INFORMATION

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURES⁽¹⁾

	Year Ended August 31,				
	2024	2023	2022	2021	2020
Fund Balance - September 1 (Beginning)	\$ 14,239,823	\$ 12,677,179 ⁽²⁾	\$ 8,938,388	\$ 6,188,178 ⁽²⁾	\$ 9,739,506
Revenues					
Total Local & Intermediate Sources	\$ 9,134,244	\$ 11,460,805	\$ 10,824,465	\$ 10,261,539	\$ 9,659,654
State Program Revenues	18,956,861	16,596,368	18,278,361	19,346,816	18,195,758
Federal Program Revenues	581,402	1,929,133	1,669,706	699,907	549,126
Total Revenues	\$ 28,672,507	\$ 29,986,306	\$ 30,772,532	\$ 30,308,262	\$ 28,404,538
Expenditures					
Instruction	\$ 15,696,550	\$ 15,240,312	\$ 13,476,927	\$ 15,495,670	\$ 16,484,658
Instructional Resources and Media Services	140,865	259,546	1,032,714	744,432	1,227,337
Curriculum and Instructional Staff Development	466,447	174,241	125,630	110,539	141,681
Instructional Leadership	445,797	174,486	735,672	727,979	595,000
School Leadership	1,688,550	1,975,165	1,739,883	2,016,331	2,041,355
Guidance, Counseling, and Evaluation Services	988,011	398,850	197,965	760,840	800,205
Social Work Services	159,141	2,844	2,748	122,920	95,635
Health Services	398,281	97,701	440,097	411,480	394,560
Student Transportation	948,291	989,432	1,101,091	653,288	779,025
Food Services	-	-	-	-	-
Co-Curricular/Extracurricular Activities	1,182,525	1,128,046	1,149,863	1,036,151	1,182,835
General Administration	2,316,129	2,158,169	1,867,681	1,819,788	1,749,643
Plant Maintenance and Operation	5,360,290	5,479,676	4,173,487	3,645,667	5,056,118
Security and Monitoring Services	528,018	124,475	117,719	55,707	128,517
Data Processing Services	1,171,218	450,141	413,049	423,695	287,030
Community Services	49,668	3,652	3,684	3,206	2,974
Principal on Long-term Debt	59,968	186,555	153,885	146,851	144,895
Interest on Long-term Debt	10,451	34,569	15,095	22,129	24,085
Bond Issuance Costs and Fees	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Payment to Shared Service Arrangements	21,794	22,809	23,538	18,228	18,233
Total Expenditures	\$ 31,631,994	\$ 28,900,669	\$ 26,770,728	\$ 28,214,901	\$ 31,153,786
Excess (Deficiency) of					
Revenues Over (Under) Expenditures	\$ (2,959,487)	\$ 1,085,637	\$ 4,001,804	\$ 2,093,361	\$ (2,749,248)
Other Financing Sources (Uses)					
Transfers In	\$ -	\$ -	\$ -	\$ 705,300	\$ -
Transfers Out (Uses)	(1,358,176)	250,000	(250,000)	(48,451)	(900,000)
Sale of Real and Personal Property	624,980	-	-	-	-
Right-to-Use Lease and SBITA Proceeds	162,068	227,007	-	-	-
Other Sources (Uses)	-	-	(13,304)	-	-
Total Other Financing Sources (Uses)	\$ (571,128)	\$ 477,007	\$ (263,304)	\$ 656,849	\$ (900,000)
Special Item - Resources	\$ -	\$ -	\$ -	\$ -	\$ (97,901)
Net Change in Fund Balance	(3,530,615)	1,562,644	3,738,500	2,750,210	(3,551,347)
Prior period adjustment	-	-	-	-	-
Fund Balance - August 31 (Ending)	\$ 10,709,208	\$ 14,239,823	\$ 12,676,888	\$ 8,938,388	\$ 6,188,159

Source: District's audited financial statements.

⁽¹⁾ The General Fund Balance for the fiscal year end August 31, 2025, is estimated to be approximately \$5,888,499. Estimated change from 2024 in General Fund Balance due to the decrease in student enrollment, above-ratio staffing counts, high health insurance costs, property insurance costs and the discrepancy between the Texas Comptroller property values and the Kleberg County property values. The District is taking steps to address each of these issues and expects an gradual increase in the General Fund Balance.

⁽²⁾ Beginning fund balance restated.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Financial Accountability Systems Resource Guide, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments (see Appendix B - "Kingsville Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2024").

General Fund Balance . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 60 days of expenditures in the General Fund.

Budgetary Procedures . . . The District policy is to begin budget preparations on the individual school level in March of each year. The principals work with the teachers to formulate a working budget, which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late August. Priorities are based on long-term and annual goals.

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

LEGAL INVESTMENTS . . . Under State law, the District is authorized to invest in obligations meeting the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA"), which may include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (12), or, if applicable, corporate bonds as described below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (15) for bond proceeds, guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or 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.

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.

TABLE 12 – CURRENT INVESTMENTS⁽¹⁾

As of August 31, 2025, the District's investable funds were invested as follows:

Investment or Investment Type	Maturity	Fair Value
TexPool	N/A	\$ 14,950,012
Lone Star	N/A	1,245,614
Total Investments	N/A	<u>\$ 16,195,626</u>

⁽¹⁾ Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

OPINION. . . The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

The delivery of the Bonds is subject to the opinion of Escamilla & Poneck, LLP, San Antonio, Texas ("Bond Counsel") to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof 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 individuals. However, such interest is taken into account in determining the "adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed for tax years beginning after December 31, 2022. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX C hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon the report and representations and certifications of the District pertaining to the use, expenditure and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District 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 or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested 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 owner thereof for federal income taxes from the date of the issuance of the Bonds. Bond Counsel has not been retained by the District to monitor such post-issuance compliance.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. 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 municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any 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.

TAX CHANGES. . . Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

ANCILLARY TAX CONSEQUENCES. . . Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned

income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Pursuant to Public Law No. 115-97 (i.e., the Tax Cuts and Jobs Act), for tax years beginning after December 31, 2017, the corporate alternative minimum tax is repealed. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS. . . The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the “Discount Bonds”). 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 Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. 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 his taxable year.

However, such accrued 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, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond 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 for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS. . . The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial 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 with respect to the Premium Bonds. 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 which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

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.

The District expects to designate the Bonds as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect the treatment of the Bonds as “qualified tax-exempt obligations.” Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded, however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS....Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a “bank,” as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The Issuer expects that the Bonds will be designated, or deemed designated, as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the**

issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

OTHER INFORMATION

RATINGS. . . An application for a contract rating on this issue has been made to Moody’s Investors Services, Inc. (“Moody’s”). Certain issues of the currently outstanding tax supported debt of the District are rated “Aaa” by Moody’s and “AAA” by S&P Global Ratings (“S&P”), by virtue of the Permanent School Fund Guarantee (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein). Certain issues of the currently outstanding unenhanced, tax supported debt of the District have an underlying rating of “A1” by Moody’s and “A” by S&P. An explanation of such ratings may be obtained from Moody’s and S&P, respectively. The ratings will reflect only the view of such organizations at the time such ratings are given, and the District will make no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

EFFECT OF SEQUESTRATION . . . The District has determined that the reduced amount of refundable tax credit payments to be received from the United States Treasury in relation to its outstanding Unlimited Tax Qualified School Construction Bonds, Taxable Series 2012 designated as “Direct Pay Subsidy Bonds” under the Code as a result of the automatic reductions in federal spending effective March 1, 2013, pursuant to the Budget Control Act of 2011 (commonly referred to as “Sequestration”), and extensions thereof, if any, pursuant to the Bipartisan Budget Act of 2013, signed into law by the President on December 26, 2013, will not have a material impact on the financial condition of the District or its ability to pay regularly scheduled debt service on its outstanding obligations when and in the amounts due and owing.

LITIGATION. . . On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

The District represents that is not a party to any litigation or other 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 statements of the District.

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) thereof; 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 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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS. . . Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the Bonds may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to sure 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 Bond 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 District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal 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 Escamilla & Poneck LLP, San Antonio, Texas, Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. Bond Counsel has been retained by and only represents the District. A form of Bond Counsel’s opinion appears in Appendix C attached hereto.

Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions “THE BONDS” (except for the information contained in the subcaptions “Sources and Uses of Bond Proceeds,” “Bondholders’ Remedies,” and “Book-Entry-Only System” as to

which no opinion is expressed), "Permanent School Fund Guarantee," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS," "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," "OTHER INFORMATION - Continuing Disclosure of Information" (except under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed) and "OTHER INFORMATION - Legal Matters" (except for the last two sentences of the first paragraph thereof, as to which no opinion is expressed), and such firm is of the opinion that the information 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 Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Winstead PC, San Antonio, Texas, counsel to the Underwriters.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION. . . The financial data and other information contained hereunder 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 resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

CONTINUING DISCLOSURE OF INFORMATION . . . In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB through its Electronic Municipal Market Access ("EMMA") system, when it will be available to the general public, free of charge at www.emma.msrb.com.

ANNUAL REPORTS . . . The District will file certain updated financial information and operating data with 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 5 and 7 through 12) and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet website or filed with the United States Securities and Exchange Commission (the "SEC"); as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after 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 federal income 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 paying agent/registrant or the change of name of a paying agent/registrant, if material. Neither the Bonds nor the Order makes any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund), or liquidity enhancement; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, (A) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under 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, and (B) the District intends the words used in clauses (15) and (16) of the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

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.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of 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 Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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 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 registered 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 past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

FINANCIAL ADVISOR . . . Tijerina Financial Consulting LLC 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. Tijerina Financial Consulting LLC, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and 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 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 its responsibilities 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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS . . . The arithmetical accuracy of certain computations included in the schedules provided by Tijerina Financial Consulting LLC on behalf of the District relating to (a) computation of forecasted receipts of principal and interest on the Escrowed Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields of the Bonds and the restricted Escrowed Securities were verified by The Arbitrage Group, certified public accountants. Such computations were based solely on assumptions and information supplied by Tijerina Financial Consulting LLC on behalf of the District. The Arbitrage Group has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering price to the public as shown on inside cover page of the official statement less an underwriting discount of \$ _____. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this official statement in accordance with, and as part of, their responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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. 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.

In the ordinary course of their various business activities, the Underwriters and their respective 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

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

The forward-looking statements 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 Order authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters. The Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.C. Section 240.15c2-12.

The Order authorizing the Bonds authorized an Authorized Official to approve the form and content of this Official Statement and authorized its execution by an Authorized Official for further use in reoffering of the Bonds by the Underwriters in accordance with the provisions of the Rule.

Kingsville Independent School District

/s/

Authorized Official

SCHEDULE I

SCHEDULE OF REFUNDED BONDS*

Issue		Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Unlimited Tax Refunding Bonds, Series 2015						
	Serial	2/15/2028	4.000%	\$ 375,000	1/11/2026	100.00
		2/15/2029	4.000%	975,000	1/11/2026	100.00
		2/15/2030	4.000%	1,020,000	1/11/2026	100.00
		2/15/2031	4.000%	1,060,000	1/11/2026	100.00
				<u>3,430,000</u>		
Unlimited Tax Refunding Bonds, Series 2016						
	Serial	2/15/2029	4.000%	\$ 950,000	2/15/2026	100.00
		2/15/2030	4.000%	990,000	2/15/2026	100.00
		2/15/2031	4.000%	1,035,000	2/15/2026	100.00
		2/15/2032	4.000%	1,075,000	2/15/2026	100.00
				<u>\$ 4,050,000</u>		
				<u>\$ 7,480,000</u>		

*Preliminary, subject to change.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

LOCATION

The District is a political subdivision located in Kleberg County, Texas. The District is approximately 93 square miles in area and serves a population of approximately 23,331.

ADMINISTRATION

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the “Board”). Members of the Board serve four-year staggered terms with elections being held in May of each even numbered year. The Board delegates administrative responsibilities to the Superintendent of Schools.

ENROLLMENT AND FACILITIES

The school facilities currently provided by the District include five elementary schools, one intermediate school, one middle school, and one high school.

AVERAGE DAILY ATTENDANCE

Historical average daily attendance for the District is as follows:

Year	Average Daily Attendance
2015-2016	3,109
2016-2017	3,105
2017-2018	3,048
2018-2019	2,928
2019-2020	2,578
2020-2021	2,591
2021-2022	2,425
2022-2023	2,328
2023-2024	2,266
2024-2025	2,204

Source: The Municipal Advisory Council of Texas

EMPLOYMENT STATISTICS

City of Kingsville			Texas		
August 2023	August 2024	August 2025	August 2023	August 2024	August 2025
11,105	11,262	11,536	15,287,702	15,675,864	15,885,187
10,567	10,725	10,949	14,633,137	14,978,832	15,144,613
538	537	587	654,565	697,032	740,574
4.8%	4.8%	5.1%	4.3%	4.4%	4.7%

APPENDIX B

KINGSVILLE INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL AND COMPLIANCE REPORT

For the Fiscal Year Ended August 31, 2024

The information contained in this Appendix consists of excerpts from the Kingsville Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2024, 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.

Raul Hernandez & Company, P.C.
Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kingsville Independent School District
P.O. Box 871
Kingsville, Texas 78364-0871

Report on the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingsville Independent School District (the "District"), as of and for the year ended August 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Kingsville 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 opinion.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note A to the basic financial statements, during the year ended August 31, 2024, the District implemented Governmental Standards Board (GASB) Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining statements, required TEA schedules, and the Schedule of Expenditures of Federal Awards, as required by audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 statements, 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 February 12, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 District's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.
Corpus Christi, Texas
February 12, 2025

THIS PAGE LEFT BLANK INTENTIONALLY

MANAGEMENT'S DISCUSSION AND ANALYSIS

THIS PAGE LEFT BLANK INTENTIONALLY

KINGSVILLE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Kingsville Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2024. Please read it in conjunction with the independent auditors' report on page 1, and the District's Basic Financial Statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

The District's financial position of governmental activities increased to \$20,948,717.

During the year, the District had tax revenues of \$7,392,290 for general purposes and \$5,994,266 for debt service. In addition, the District generated \$20,380,050 in grant and contribution revenues.

The General Fund ended the year with a fund balance of \$10,709,208. The Debt Service ended the year with a fund balance of \$1,541,856.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Financial Position and the Statement of Activities on pages 10 and 11. 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 12 report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or custodian for the benefit of those outside of the district.

The notes to the financial statements starting on page 21 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. 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 Financial Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Financial Position includes all the District's assets and liabilities at the

end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's financial position and changes in them. The District's financial position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's financial 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 Financial Position and the Statement of Activities, we present the District's one kind of activity:

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 has no business-type activities currently.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 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—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Financial 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 (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Financial Position and the Statement of Activities. In fact, the

District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Financial position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District implemented GASB Statement #34 in 2002. We have presented both current and prior year data and will discuss significant changes in the accounts. Our analysis focuses on the financial position (Table I) and changes in financial position (Table II) of the District's governmental activities.

Financial Position of the District's governmental activities increased from \$19,953,194 to \$20,948,717. Unrestricted financial position – the part of financial position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was (\$5,448,531) at August 31, 2024, as opposed to (\$1,970,249) in the prior year.

Table 1
Financial Position

	Governmental Activities		
	2024	2023	Change
ASSETS			
Current and other assets	\$ 19,226,194	\$ 28,437,245	\$ (9,211,051)
Capital assets	68,129,913	68,986,341	(856,428)
Total assets	87,356,107	97,423,586	(10,067,479)
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Charge for Refunding	774,783	817,826	(43,043)
Deferred Outflow Related to TRS Pension	4,004,112	3,215,373	788,739
Deferred Outflow Related to TRS OPEB	2,444,745	1,589,097	855,648
Total Deferred Outflows of Resources	7,223,640	5,622,296	1,601,344
LIABILITIES			
Current liabilities	2,429,604	6,621,472	(4,191,868)
Noncurrent liabilities	61,069,050	65,114,571	(4,045,521)
Total liabilities	63,498,654	71,736,043	(8,237,389)
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to TRS Pension	734,182	1,149,186	(415,004)
Deferred Inflow Related to TRS OPEB	9,398,194	10,152,589	(754,395)
Total Deferred Inflows of Resources	10,132,376	11,301,775	(1,169,399)
NET POSITION			
Net Investment in Capital Assets	22,041,629	16,824,416	5,217,213
Restricted	4,355,619	5,099,027	(743,408)
Unrestricted	(5,448,531)	(1,970,249)	(3,478,282)
Total net position	\$ 20,948,717	\$ 19,953,194	\$ 995,523

Table II
CHANGES IN NET POSITION

	Governmental Activities 2024	Governmental Activities 2023	Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 671,337	\$ 704,360	\$ (33,023)
Operating grants and contributions	7,772,548	13,889,243	(6,116,695)
General Revenues:			
Maintenance and operations taxes	7,392,290	9,686,932	(2,294,642)
Debt service taxes	5,994,266	5,082,903	911,363
Grants and Contributions not restricted to specific functions	20,380,050	17,959,577	2,420,473
Investment Earnings	1,069,460	863,527	205,933
Misc Local and Intermediate Revenue	4,002,493	3,535,968	466,525
Total Revenue	<u>47,282,444</u>	<u>51,722,510</u>	<u>(4,440,066)</u>
Expenses:			
Instruction, curriculum and media services	24,446,921	25,196,169	(749,248)
Instructional and school leadership	3,022,354	3,328,895	(306,541)
Student support services	3,366,904	3,247,099	119,805
Child nutrition	2,152,555	2,138,849	13,706
Extracurricular activities	1,314,056	1,223,195	90,861
General administration	2,369,666	2,394,180	(24,514)
Plant maintenance, security & data processing	7,636,712	7,595,484	41,228
Community services	79,748	38,650	41,098
Debt Services	1,876,211	1,853,725	22,486
Payments to fiscal agent	21,794	22,809	(1,015)
Total Expenses	<u>46,286,921</u>	<u>47,039,055</u>	<u>(752,134)</u>
Increase in net position before transfers and	995,523	4,683,455	(3,687,932)
Net Position at 9/1/23	19,953,194	15,269,739	4,683,455
Net Position at 8/31/24	<u>\$ 20,948,717</u>	<u>\$ 19,953,194</u>	<u>\$ 995,523</u>

The District's total revenues decreased by (\$4,440,066), a majority of the decrease was due to a decrease in Operating Grants and Contributions and Maintenance and operations taxes. The District's expenditures decreased by (\$752,134) over the prior year with a majority of the decrease in Instruction, curriculum and media services and Instructional and school leadership.

The District property tax rate was \$1.4104 compared to the previous year of \$1.5189, while the District's tax revenues decreased by approximately (\$1,383,279) in 2024.

The cost of all governmental activities for the year was \$46,286,921, as opposed to \$47,039,055, in the previous year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$13,386,556 because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet) reported a combined fund surplus of \$15,111,310 as opposed to a fund balance of \$19,424,412 from the previous year.

The capital expenditures reduce available fund balances, but they also create new assets for the District as reported in the Statement of Financial Position and as discussed in the Footnotes to the financial statements.

Over the course of the year, the Board of Trustees revised the District's budget. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances. The second category includes changes that the Board made during the last month of the fiscal year. There were no major amendments to the original budgets.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2024, the District had approximately \$68 million invested in a broad range of capital assets, including land, buildings, furniture & equipment, and capital leases. This year's major additions included:

	2024	2023
Land	\$ 538,364	\$ 541,364
Construction In Progress	323,200	-
Buildings and Improvements	114,608,153	113,811,475
Furniture and Equipment	9,348,133	9,080,917
Right-to-use lease assets	227,007	227,007
SBITA	162,068	-
Totals at Historical Cost	<u>125,206,925</u>	<u>123,660,764</u>
Accumulated Depreciation	<u>(57,077,012)</u>	<u>(54,674,423)</u>
Total Capital Assets (Net)	<u>\$ 68,129,913</u>	<u>\$ 68,986,341</u>

More detailed information about the District's capital assets is presented in Note D (page 32) to the financial statements.

Debt

At year-end, the District had \$46.8 million in bonds and other long-term debt outstanding.

More detailed information about the District's long-term liabilities is presented in Note G (page 33) of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2025 budget and tax rates. The District has a high percentage of socioeconomically disadvantaged students, 85% district-wide. Enrollment declined by 3% during the 2023-2024 school year, which led to a decrease in state and federal funding.

The District's Board of Trustees set the 2025 tax rate at \$0.7552 for Maintenance and Operations and a tax rate of \$0.6552 for Interest and Sinking. The District's certified taxable value was \$1,259,322,261 for 2024. Additionally, the County appraisal values have been significantly lower than the state comptroller values the last few years. This is expected to significantly affect state funding during the 2025 fiscal year.

No bond refundings were completed during the current audit year. A bond refunding in the coming year will only be possible if current interest rates decrease.

These indicators were taken into account when adopting the General Fund budget for 2025. Amounts available for appropriation in the General Fund budget are \$34,993,782. This budget reflects a deficit budget for 2025.

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 Kingsville Independent School District, Kingsville, Texas.

BASIC FINANCIAL STATEMENTS

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2024

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 14,414,396
1220 Property Taxes - Delinquent	1,400,708
1230 Allowance for Uncollectible Taxes	(210,043)
1240 Due from Other Governments	3,198,104
1290 Other Receivables, Net	291,024
1300 Inventories	132,005
Capital Assets:	
1510 Land	538,364
1520 Buildings, Net	65,321,760
1530 Furniture and Equipment, Net	1,702,339
1550 Right-to-Use Leased Assets, Net	136,205
1553 SBITA Assets, Net	108,045
1580 Construction in Progress	323,200
1000 Total Assets	<u>87,356,107</u>
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	774,783
1705 Deferred Outflow Related to TRS Pension	4,004,112
1706 Deferred Outflow Related to TRS OPEB	2,444,745
1700 Total Deferred Outflows of Resources	<u>7,223,640</u>
LIABILITIES	
2110 Accounts Payable	807,797
2140 Interest Payable	74,368
2150 Payroll Deductions and Withholdings	90,739
2160 Accrued Wages Payable	1,060,136
2400 Payable from Restricted Assets	396,564
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	2,560,233
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	44,302,834
2540 Net Pension Liability (District's Share)	9,118,746
2545 Net OPEB Liability (District's Share)	5,087,237
2000 Total Liabilities	<u>63,498,654</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	734,182
2606 Deferred Inflow Related to TRS OPEB	9,398,194
2600 Total Deferred Inflows of Resources	<u>10,132,376</u>
NET POSITION	
3200 Net Investment in Capital Assets	22,041,629
Restricted:	
3820 Restricted for Federal and State Programs	847,830
3850 Restricted for Debt Service	1,541,856
3860 Restricted for Capital Projects	1,766,487
3870 Restricted for Campus Activities	67,441
3890 Restricted for Other Purposes	132,005
3900 Unrestricted	(5,448,531)
3000 Total Net Position	<u>\$ 20,948,717</u>

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2024

EXHIBIT B-1

FOR THE YEAR ENDED AUGUST 31, 2024

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
		Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 23,560,903	\$ 554,077	\$ 3,361,403	\$ (19,645,423)
12 Instructional Resources and Media Services	321,930	-	133,506	(188,424)
13 Curriculum and Instructional Staff Development	564,088	-	96,266	(467,822)
21 Instructional Leadership	1,213,819	-	749,409	(464,410)
23 School Leadership	1,808,535	-	8,994	(1,799,541)
31 Guidance, Counseling, and Evaluation Services	1,379,331	-	344,532	(1,034,799)
32 Social Work Services	273,075	-	88,613	(184,462)
33 Health Services	384,923	-	5,813	(379,110)
34 Student (Pupil) Transportation	1,329,575	-	-	(1,329,575)
35 Food Services	2,152,555	36,098	2,540,625	424,168
36 Extracurricular Activities	1,314,056	81,162	31,500	(1,201,394)
41 General Administration	2,369,666	-	-	(2,369,666)
51 Facilities Maintenance and Operations	5,530,607	-	97,009	(5,433,598)
52 Security and Monitoring Services	679,767	-	160,399	(519,368)
53 Data Processing Services	1,426,338	-	-	(1,426,338)
61 Community Services	79,748	-	38,630	(41,118)
72 Debt Service - Interest on Long-Term Debt	1,784,956	-	2,462	(1,782,494)
73 Debt Service - Bond Issuance Cost and Fees	91,255	-	-	(91,255)
81 Capital Outlay	-	-	113,387	113,387
93 Payments Related to Shared Services Arrangements	21,794	-	-	(21,794)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 46,286,921	\$ 671,337	\$ 7,772,548	(37,843,036)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			7,392,290
DT	Property Taxes, Levied for Debt Service			5,994,266
GC	Grants and Contributions not Restricted			20,380,050
IE	Investment Earnings			1,069,460
MI	Miscellaneous Local and Intermediate Revenue			4,002,493
TR	Total General Revenues			38,838,559
CN	Change in Net Position			995,523
NB	Net Position - Beginning			19,953,194
NE	Net Position - Ending			\$ 20,948,717

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 9,960,879	\$ 1,541,856	\$ 1,931,074	\$ 13,433,809
1220 Property Taxes - Delinquent	927,790	472,918	-	1,400,708
1230 Allowance for Uncollectible Taxes	(139,169)	(70,874)	-	(210,043)
1240 Due from Other Governments	2,121,558	-	1,076,546	3,198,104
1290 Other Receivables	290,224	-	800	291,024
1300 Inventories	59,305	-	72,700	132,005
1000 Total Assets	<u>\$ 13,220,587</u>	<u>\$ 1,943,900</u>	<u>\$ 3,081,120</u>	<u>\$ 18,245,607</u>
LIABILITIES				
2110 Accounts Payable	\$ 571,883	\$ -	\$ 220,874	\$ 792,757
2150 Payroll Deductions and Withholdings Payable	90,739	-	-	90,739
2160 Accrued Wages Payable	1,060,136	-	-	1,060,136
2000 Total Liabilities	<u>1,722,758</u>	<u>-</u>	<u>220,874</u>	<u>1,943,632</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	788,621	402,044	-	1,190,665
2600 Total Deferred Inflows of Resources	<u>788,621</u>	<u>402,044</u>	<u>-</u>	<u>1,190,665</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	59,305	-	72,700	132,005
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	847,830	847,830
3470 Capital Projects	-	-	1,766,487	1,766,487
3480 Retirement of Long-Term Debt	-	1,541,856	-	1,541,856
3490 Other Restricted Fund Balance	-	-	67,441	67,441
3600 Unassigned Fund Balance	10,649,903	-	105,788	10,755,691
3000 Total Fund Balances	<u>10,709,208</u>	<u>1,541,856</u>	<u>2,860,246</u>	<u>15,111,310</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 13,220,587</u>	<u>\$ 1,943,900</u>	<u>\$ 3,081,120</u>	<u>\$ 18,245,607</u>

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2024

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 15,111,310
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	568,983
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$123,660,764 and the accumulated depreciation was (\$52,206,578). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position. Note: Beginning Balances related to TRS are NOT included in this amount.	16,741,290
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2024 capital outlays and debt principal payments is to decrease net position.	7,780,908
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$4,004,112 a deferred resource inflow in the amount of \$734,182, and a net pension liability in the amount of \$9,118,746. This resulted in an increase (decrease) in net position.	(5,848,816)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$2,444,745, a deferred resource inflow in the amount of \$9,398,194, and a net OPEB liability in the amount of \$5,087,237. This resulted in an increase (decrease) in net position.	(12,040,686)
6 The 2024 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(2,554,936)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	1,190,664
29 Net Position of Governmental Activities	\$ 20,948,717

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 9,134,244	\$ 6,190,591	\$ 120,869	\$ 15,445,704
5800 State Program Revenues	18,956,861	680,161	478,702	20,115,724
5900 Federal Program Revenues	581,402	280,425	7,172,978	8,034,805
5020 Total Revenues	28,672,507	7,151,177	7,772,549	43,596,233
EXPENDITURES:				
Current:				
0011 Instruction	15,696,550	-	3,358,922	19,055,472
0012 Instructional Resources and Media Services	140,865	-	133,506	274,371
0013 Curriculum and Instructional Staff Development	466,447	-	87,066	553,513
0021 Instructional Leadership	445,797	-	749,409	1,195,206
0023 School Leadership	1,688,550	-	8,994	1,697,544
0031 Guidance, Counseling, and Evaluation Services	988,011	-	344,532	1,332,543
0032 Social Work Services	159,141	-	88,613	247,754
0033 Health Services	398,281	-	5,813	404,094
0034 Student (Pupil) Transportation	948,291	-	-	948,291
0035 Food Services	-	-	2,389,568	2,389,568
0036 Extracurricular Activities	1,182,525	-	31,500	1,214,025
0041 General Administration	2,316,129	-	-	2,316,129
0051 Facilities Maintenance and Operations	5,360,290	-	97,009	5,457,299
0052 Security and Monitoring Services	528,018	-	160,399	688,417
0053 Data Processing Services	1,171,218	-	-	1,171,218
0061 Community Services	49,668	-	38,630	88,298
Debt Service:				
0071 Principal on Long-Term Liabilities	59,968	2,845,000	55,101	2,960,069
0072 Interest on Long-Term Liabilities	10,451	2,106,442	2,462	2,119,355
0073 Bond Issuance Cost and Fees	-	18,522	-	18,522
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	1,520,168	1,520,168
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	21,794	-	-	21,794
6030 Total Expenditures	31,631,994	4,969,964	9,071,692	45,673,650
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,959,487)	2,181,213	(1,299,143)	(2,077,417)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	624,980	-	-	624,980
7913 Right-to-Use Lease and SBITA Proceeds	162,068	-	-	162,068
7915 Transfers In	-	-	1,358,176	1,358,176
8911 Transfers Out (Use)	(1,358,176)	-	-	(1,358,176)
8949 Other (Uses)	-	(3,022,733)	-	(3,022,733)
7080 Total Other Financing Sources (Uses)	(571,128)	(3,022,733)	1,358,176	(2,235,685)
1200 Net Change in Fund Balances	(3,530,615)	(841,520)	59,033	(4,313,102)
0100 Fund Balance - September 1 (Beginning)	14,239,823	2,383,376	2,801,213	19,424,412
3000 Fund Balance - August 31 (Ending)	\$ 10,709,208	\$ 1,541,856	\$ 2,860,246	\$ 15,111,310

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

KINGSVILLE 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 AUGUST 31, 2024

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (4,313,102)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	(547,905)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2024 capital outlays and debt principal payments is to decrease net position.	7,780,908
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.	(2,554,936)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(57,188)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$667,669. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$681,579. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense (increased) decreased the change in net position by \$824,158. The net result is an increase (decrease) in the change in net position.	(838,068)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$182,235. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling \$186,915. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net pension expense (increased) decreased the change in net position by (\$1,530,494). The net result is an increase (decrease) in the change in net position.	1,525,814
Change in Net Position of Governmental Activities	\$ 995,523

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2024

EXHIBIT D-1

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 980,587
Total Assets	<u>980,587</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	15,040
Payable from Restricted Assets	<u>210,281</u>
Total Current Liabilities	<u>225,321</u>
Noncurrent Liabilities:	
Claims and Judgements	<u>186,283</u>
Total Noncurrent Liabilities	<u>186,283</u>
Total Liabilities	<u>411,604</u>
NET POSITION	
Unrestricted Net Position	<u>568,983</u>
Total Net Position	<u>\$ 568,983</u>

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2024

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,240,218
Total Operating Revenues	<u>3,240,218</u>
OPERATING EXPENSES:	
Payroll Costs	13,288
Professional and Contracted Services	3,745,735
Supplies and Materials	397
Other Operating Costs	<u>28,703</u>
Total Operating Expenses	<u>3,788,123</u>
Operating Income (Loss)	(547,905)
Total Net Position - September 1 (Beginning)	<u>1,116,888</u>
 Total Net Position - August 31 (Ending)	 <u>\$ 568,983</u>

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2024

EXHIBIT D-3

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Payments to Employees for Services	\$ (13,288)
Cash Payments for Insurance Claims	(3,600,779)
Cash Payments for Suppliers	(397)
Cash Payments for Other Operating Expenses	(28,703)
Net Cash Used for Operating Activities	(3,643,167)
Net Decrease in Cash and Cash Equivalents	(433,989)
Cash and Cash Equivalents at Beginning of Year	1,414,576
Cash and Cash Equivalents at End of Year	\$ 980,587
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (547,905)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	113,916
Net Cash Used for Operating Activities	\$ (433,989)

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2024

	Private Purpose Trust Fund	Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ 10,000	\$ 106,405
Total Assets	<u>10,000</u>	<u>\$ 106,405</u>
LIABILITIES		
Accounts Payable	-	2,952
Total Liabilities	<u>-</u>	<u>2,952</u>
NET POSITION		
Restricted for Scholarships	10,000	-
Restricted for Other Purposes	-	103,453
Total Net Position	<u>\$ 10,000</u>	<u>\$ 103,453</u>

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2024

	Private Purpose Trust Fund	Custodial Fund
ADDITIONS:		
Other Local Revenue	\$ 6,000	\$ 136,796
Total Additions	<u>6,000</u>	<u>136,796</u>
DEDUCTIONS:		
Payment To Others	<u>8,000</u>	<u>140,846</u>
Total Deductions	<u>8,000</u>	<u>140,846</u>
Change in Fiduciary Net Position	(2,000)	(4,050)
Total Net Position - September 1 (Beginning)	<u>12,000</u>	<u>107,503</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 10,000</u></u>	<u><u>\$ 103,453</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Kingsville Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. REPORTING ENTITY

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has 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 ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are no component units included within the reporting entity.

2. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

Debt Service Funds: The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

In addition, the District reports the following fund types:

Special Revenue Funds: The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Capital Project Fund: The other major fund is the capital projects fund which accounts for capital expenditure projects.

Internal Service Funds: These are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Custodial Funds: The District accounts for resources held for others in a custodial capacity in custodial funds. These funds are used to account for assets held by the District as an custodian for student and other organizations. These funds were previously reported in an agency fund. This change resulted in reporting the detail of additions to and deductions from custodial funds causing a change in the fund net position whereas these details were not reported for agency funds. This change is a result of the implementation of GASB 84.

Fiduciary Funds: These funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or custodial capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Other Special Revenue Funds: The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use unrestricted resources first, then restricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continue to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

3. FINANCIAL STATEMENT AMOUNTS

a. Cash and Cash Equivalents

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

	General Fund	Debt Service Fund	Total
Delinquent Taxes	\$ 927,790	\$ 472,918	\$ 1,400,708
Allowance for Uncollectible Taxes	(139,169)	(70,874)	(210,043)
Net Taxes	<u>\$ 788,621</u>	<u>\$ 402,044</u>	<u>\$ 1,190,665</u>

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property 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.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Certain Payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building & Improvements	10-50
Equipment	5-15
Vehicles	10

Right-to-use leased assets and SBITA assets are depreciated/amortized using the straight line method over the term of the respective agreements.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

c. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Compensated Absences

On retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in a lump case payment to such employee or his/her estate.

g. Interfund Activity

Interfund activity results from loans, service provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" Line of the government-wide statement of net assets.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

j. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints of their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose 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.

k. Pensions

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

l. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

m. Change in Accounting Principle

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*, was adopted effective July 1, 2023. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information from making decisions or assessing accountability.

B. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violation of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Not applicable	Not applicable	Not applicable

3. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J2 and J3.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:
5. Excess of expenditure over appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund.

Fund	Function	Amount of Excess
N/A		\$ -
		\$ -

C. 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.

A. Cash Deposits:

At August 31, 2024, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$14,520,801 and the bank balance was \$15,099,313. The District's cash deposits at August 31, 2024 and during the year ended August 31, 2024, were entirely covered by the FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

B. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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, and (9) bid solicitation preferences for certificates of deposit.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practice, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2024 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 12,565,438
Lone Star	N/A	2,101,261
Total Investments	N/A	<u>\$ 14,666,699</u>

C. Analysis of Specific Deposit and Investment Risks

GASB Statement no. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end the District was not significantly exposed to credit risk. At August 31, 2021, the District's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality as follows:

	<u>Rating</u>	<u>Rating Agency</u>
TexPool	AAAm	Standard and Poor's
Lone Star	AAA	Standard and Poor's

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

c. Concentration of Credit Risk

This is the risk that in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to concentration 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. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool Under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAm by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard & Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus which maintain a net asset value of one dollar.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

D. CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2024, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated				
Land	\$ 541,364	\$ -	\$ (3,000)	\$ 538,364
Construction In Progress	-	323,200		323,200
Total capital assets not being depreciated	<u>541,364</u>	<u>323,200</u>	<u>(3,000)</u>	<u>861,564</u>
Capital assets being depreciated:				
Buildings and Improvements	113,544,260	1,063,893	-	114,608,153
Furniture and Equipment	9,348,133	-	-	9,348,133
Right-to-use lease assets - Equipment	227,007	-	-	227,007
SBITA	-	162,068	-	162,068
Total capital assets being depreciated	<u>123,119,400</u>	<u>1,225,961</u>	<u>-</u>	<u>124,345,361</u>
Less accumulated depreciation for:				
Buildings and Improvements	(47,090,509)	(2,195,884)	-	(49,286,393)
Furniture and Equipment	(7,386,166)	(259,628)	-	(7,645,794)
Right-to-use lease assets - Equipment	(45,401)	(45,401)	-	(90,802)
SBITA	-	(54,023)	-	(54,023)
Total accumulated depreciation	<u>(54,522,076)</u>	<u>(2,554,936)</u>	<u>-</u>	<u>(57,077,012)</u>
Total capital assets being depreciated, net	<u>68,597,324</u>	<u>(1,328,975)</u>	<u>-</u>	<u>67,268,349</u>
Governmental activities capital assets, net	<u>\$ 69,138,688</u>	<u>\$ (1,005,775)</u>	<u>\$ (3,000)</u>	<u>\$ 68,129,913</u>
Depreciation was charged to functions as follows:				
Instruction	\$ 1,149,721			
Instructional Resources and Media Services	51,099			
Curriculum and Staff Development	25,549			
Instructional Leadership	51,099			
School Leadership	153,296			
Guidance, Counseling, & Evaluation Services	127,747			
Health Services	25,549			
Student Transportation	383,240			
Food Services	25,549			
Extracurricular Activities	127,747			
General Administration	76,648			
Plant Maintenance and Operations	102,197			
Data Processing Services	255,495			
	<u>\$ 2,554,936</u>			

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

E. INTERFUND BALANCES AND ACTIVITIES

1. Transfers To and From Other Funds

Transfers to and Transfers from other funds at August 31, 2024, consisted of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 1,358,176	Transfer for Capital Project
		<u>\$ 1,358,176</u>	

F. FUND BALANCES

The District has nonspendable, restricted, committed, and unassigned fund balance as follows.

Nonspendable Fund Balances:	
Inventories	\$ 132,005
Restricted Fund Balances:	
Federal/State Funds Grant Restrictions	847,830
Capital Projects	1,766,487
Retirement of Long-Term Debt	1,541,856
Other Restricted Fund Balance	67,441
	<u>4,223,614</u>
Unassigned:	<u>10,755,691</u>
Total Fund Balance	<u>\$ 15,111,310</u>

G. LONG-TERM OBLIGATIONS

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

1. Long-Term Obligations Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term Obligations, for the year ended August 31, 2024, are as follows:

	Beginning Balance	Increases	Adjustments/ Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Unlimited Tax Qualified School Construction Bonds Taxable Series 2012 (Direct-Pay Subsidy Bonds 3.9%	\$ 3,410,000	\$ -	\$ 310,000	\$ 3,100,000	\$ 310,000
Unlimited Tax Refunding Bonds, Series 2014, 2.0%to 4.0% Interest	225,000	-	60,000	165,000	-
Unlimited Tax Refunding Bonds, Series 2015, 2.0%to 4.0% Interest	7,195,000	-	3,765,000	3,430,000	-
Unlimited Tax Refunding Bonds, Series 2016, 2.0%to 4.0% Interest	4,975,000	-	-	4,975,000	-
Unlimited Tax Refunding Bonds, Series 2017, 3.0%to 4.5% Interest	7,540,000	-	-	7,540,000	-
Unlimited Tax Refunding Bonds, Series 2019, 4.0%to 5.0% Interest	11,415,000	-	1,210,000	10,205,000	1,255,000
Unlimited Tax Refunding Bonds, Series 2020, 4.0%to 5.0% Interest	4,490,000	-	355,000	4,135,000	375,000
Unlimited Tax Refunding Bonds, Series 2021, 1.8%to 5.0% Interest	9,410,000	-	155,000	9,255,000	225,000
Bond Premiums on Refunding	\$ 4,134,406	-	304,449	3,829,957	304,449
Total Long-Term Debt	<u>\$ 52,794,407</u>	<u>\$ -</u>	<u>\$ 6,159,449</u>	<u>\$ 46,634,958</u>	<u>\$ 2,469,449</u>
Net Pension Liability	7,076,935	2,041,811	-	9,118,746	-
Net OPEB Liability	5,003,008	84,229	-	5,087,237	-
Total Other Long-Term Debt	12,079,943	2,126,040	-	14,205,983	-
Total Governmental Activities	<u>\$ 64,874,350</u>	<u>\$ 2,126,040</u>	<u>\$ 6,159,449</u>	<u>\$ 60,840,941</u>	<u>\$ 2,469,449</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2024, are as follows:

Year Ending August 31,	Bonds Payable		
	Principal	Interest	Total
2025	\$ 2,165,000	\$ 1,748,369	\$ 3,913,369
2026	2,250,000	1,654,681	3,904,681
2027	2,345,000	1,557,731	3,902,731
2028	2,830,000	1,457,519	4,287,519
2029-2033	15,460,000	7,585,966	23,045,966
2034-2038	13,265,000	2,075,688	15,340,688
2039-2043	4,490,000	267,022	4,757,022
Totals	<u>\$ 42,805,000</u>	<u>\$ 16,346,976</u>	<u>\$ 59,151,976</u>

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

3. Right-To-Use Lease Liabilities Payable

The District leases photocopy machines with an agreement having a 5-year term. Average payments of \$4,295 are made monthly which consist of principal and imputed annual interest ranging from 4.75%. No assets were pledged as collateral for these leases.

A summary of Right-To-Use Lease arrangements for the year ended August 31, 2024, is as follows:

	Interest Rate Payable	Original Lease Liability	Current Year Interest	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Xerox Leases, September 2022	4.75%	\$ 227,007	\$ 7,861	\$ 185,346	\$ -	\$ 43,683	\$ 141,663	\$ 45,804
		Total	<u>\$ 7,861</u>	<u>\$ 185,346</u>	<u>\$ -</u>	<u>\$ 43,683</u>	<u>\$ 141,663</u>	<u>\$ 45,804</u>

Future principal and interest payments due to maturity as of the end of the fiscal year are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2025	\$ 45,804	\$ 5,740	\$ 51,544
2026	48,027	3,517	51,544
2027	47,832	3,711	51,543
2028	-	-	-
2029	-	-	-
Totals	<u>\$ 141,663</u>	<u>\$ 12,968</u>	<u>\$ 154,631</u>

4. Subscription Based Information Technology Arrangements (SBITA) - Liabilities Payable

The District entered into a subscription-based information technology arrangement (SBITA) with Carnegie Learning Inc., and Education Advanced for educational software agreements having a 3-year term with an imputed annual interest rate of 6.72%.

A summary of SBITA arrangements for the year ended August 31, 2024, is as follows:

	Interest Rate Payable	Original Lease Liability	Current Year Interest	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Carnegie Learning Inc. September 2023	6.72%	\$ 111,922	\$ 2,462	\$ -	\$ 111,922	\$ 55,101	\$ 56,821	\$ 27,892
Education Advanced September 2023	6.72%	36,862	2,120	-	36,862	11,755	25,106	12,570
Education Advanced September 2023	6.72%	9,047	470	-	9,047	4,530	4,518	4,518
		Total	<u>\$ 5,052</u>	<u>\$ -</u>	<u>\$ 157,832</u>	<u>\$ 71,387</u>	<u>\$ 86,446</u>	<u>\$ 44,980</u>

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Future principal and interest payments due to maturity as of the end of the fiscal year are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2025	\$ 44,980	\$ 4,758	\$ 49,738
2026	41,466	3,274	44,740
2027	-	-	-
2029	-	-	-
2030	-	-	-
Totals	<u>\$ 86,446</u>	<u>\$ 8,032</u>	<u>\$ 94,478</u>

General Obligation Bonds are paid from the Debt Service Fund.

2. Taxable Qualified School Construction Bonds, Taxable Series 2011A

In 2012, the District issued \$6,790,000 of Series 2012 Qualified School Construction Bonds. The District has designated the Bonds as to be used for the construction and equipment of school buildings in the District, and the purchase of necessary sites therefor; and to pay costs related to the issuance of the bonds. These bonds are created under the American Recovery and Reinvestment Act of 2009 (ARRA) for school construction and renovation projects. The bonds are subject to a number of tax-exempt bond regulations as well as some special regulations modified by the Act. The District shall make mandatory debt service deposits on February 15 in each of the years through 2034 to a reserve account for the bonds.

3. Advance Refunding of Debt

On July 12, 2017 the District issued Series 2017 bonds totaling \$8,320,000 with interest rates ranging from 3.00% to 4.50% to advance refund a portion of the Series 2007 in the amount of \$640,000, 2010 in the amount of \$1,530,000, and 2011 bonds in the amount of \$6,220,000 that were stated to mature on August 15, 2019. The net proceeds of \$9,315,643 were used to purchase U.S. government securities, which were deposited in an irrevocable trust. The economic gain was \$572,218.

On October 17, 2019 the District issued Series 2019 bonds totaling \$13,340,000 with interest rates ranging from 4.00% to 5.00% to advance refund two Series 2010 Bonds in the amounts of \$11,550,000 and \$4,390,000 that were stated to mature on February 15, 2040 and February 15, 2027, respectively. The net proceeds of \$15,012,755 were used to purchase U.S. government securities, which were deposited in an irrevocable trust. The economic gain was \$1,551,587.

On November 19, 2020, the District issued Unlimited Tax Refunding Bonds Series 2020 totaling \$5,215,000 with an interest rate of 4.00% to 5.00% and on August 18, 2021, the District issued Unlimited Tax Refunding Bonds Series 2021 totaling \$9,570,000 with an interest rate of 1.81% to 5.00% to advance refund \$6,055,000 of Unlimited Tax School Building Bonds Series 2011 with an interest rate of 2.00% to 5.00%, \$2,225,000 of Unlimited Tax School Building Bonds Series 2013 with an interest rate of 2.00% to 5.00%, and \$7,345,000 of Unlimited Tax Refunding Bonds Series 2014 with an interest rate of 2.00% to 4.00%. The net proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, \$6,055,000 of Unlimited Tax School Building Bonds Series 2011 \$2,225,000 of Unlimited Tax School Building Bonds Series 2013 and \$7,345,000 of Unlimited Tax Refunding Bonds Series 2014 are considered to be defeased and the liability for those bonds was removed from long-term debt. The premiums of \$2,160,489 is being amortized over the life of the bonds. The net present value savings is \$840,000.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

4. Defeased Debt

The District has also defeased \$220,000 of Series 2015, Unlimited Tax Refunding Bonds in the current year by placing the District's own resources into irrevocable trust account to provide for all future debt service payments on the bonds. Accordingly, those trust account assets and liability for those defeased bonds are not included in the District's financial statements. At August 31, 2023, \$220,000 of defeased bonds remain outstanding. Of the amount defeased bonds outstanding, \$220,000 is held by a trustee that may substitute the risk-free monetary assets held for the repayment of the debt with non-risk-free monetary assets.

The District has also defeased \$2,950,000 of Series 2015, Unlimited Tax Refunding Bonds in the current year by placing the District's own resources into irrevocable trust account to provide for all future debt service payments on the bonds. Accordingly, those trust account assets and liability for those defeased bonds are not included in the District's financial statements. At August 31, 2024, \$2,950,000 of defeased bonds remain outstanding. Of the amount defeased bonds outstanding, \$2,950,000 is held by a trustee that may substitute the risk-free monetary assets held for the repayment of the debt with non-risk-free monetary assets.

H. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2024, the District purchased commercial insurance to cover general liabilities. There were no significant reduction in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Annual 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/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

C. 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 in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

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 the manner are determined by the System's actuary.

D. 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 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the system during the fiscal year.

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Contribution Rates		
	2023	2024
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
Kingsville Independent School District's 2024 Employer Contributions		\$ 667,669
Kingsville Independent School District's 2024 Member Contributions		\$ 1,725,112
Kingsville Independent School District's 2023 NECE On-Behalf Contributions		\$ 1,501,697

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50 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 educational service centers must contribute 1.8 percent of the member's salary beginning in fiscal year 2023, 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

E. Actuarial Assumptions

The total pension liability in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate as of August 2022	4.13%. The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in Projection Period	
100 Years	2122
Inflation	2.30%
Salary Income Including Inflation	2.95% to 8.95%
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, 2022. For a full description of these assumptions please see the actuarial valuation report dated November 22, 2022.

F. 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 pension plan investments of 7.00 percent. The projection of cash flows used to determine the 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

9.50 percent of payroll in fiscal year 2024 increasing to 9.56 percent 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 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

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 Systems target asset allocation as of August 31, 2023 are summarized below:

Asset Class*	Target Allocation % *	Long-term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0%	4.0%	1.00%
Non-U.S. Developed	13.0	4.5	0.90
Emerging Markets	9.0	4.8	0.70
Private Equity	14.0	7.0	1.50
Stable Value			
Government Bonds	16.0%	2.5%	0.50%
Absolute Return	0.0	3.6	0.00
Stable Value Hedge	5.0	4.1	0.20
Real Return			
Real Estate	15.0%	4.9%	1.10%
Energy, Natural Resources & Infrastructure	6.0	4.8	0.40
Commodities	0.0	4.4	0.00
Risk Parity	8.0%	4.5%	0.40%
Asset Allocation Leverage			
Cash	2.0%	3.7%	0.00%
Asset Allocation Leverage	-6.0	4.4	-0.10
Inflation Expectation			2.30%
Volatility Drag****			-0.90%
Total	100.0%		8.00%

* Absolute Return includes Credit Sensitive Investments.

**Target allocations are based on the FY2023 policy model

***Capital Market Assumptions come from Aon Hewitt (as of 06/30/2023).

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

G. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Kingsville ISD's proportionate share of the net pension liability:	\$ 13,633,030	\$ 9,118,746	\$ 5,365,116

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

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

At August 31, 2024, the District reported a liability of \$9,118,746 for its proportionate share of the TRS 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	\$ 9,118,746
State's proportionate share that is associated with the District	<u>20,067,564</u>
Total	<u>\$ 29,186,310</u>

The net pension liability was measured as of August 31, 2022 and rolled forward to August 31, 2023 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, 2022 thru August 31, 2023.

At August 31, 2023 the employer's proportion of the collective net pension liability was 0.0132751485% which was an increase (decrease) of 0.0013545807% from its proportion measured as of August 31, 2022.

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 legislation that provides a one-time stipend to certain retired teachers. The stipend was paid to retirees beginning in September of 2023. The Legislature appropriated funds to pay for this one-time stipend so there will be no impact on the net pension liability of TRS. In addition, the Legislature also provided for a cost of living adjustment (COLA) to retirees which was approved during the November 2023 election which will be paid in January 2024. Therefore, this contingent liability was not reflected as of August 31, 2023.

The amount of pension expense recognized by the District in the reporting period was \$4,535,765.

For the year ended August 31, 2024, the District recognized pension expense of \$4,535,765 and revenue of \$3,030,028 for support provided by the State.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

At August 31, 2024, the District reported its proportionate share of the TRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 324,904	\$ 110,418
Changes in actuarial assumptions	862,455	211,062
Difference between projected and actual investment earnings	1,326,998	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	822,086	412,702
Total as of August 31, 2023 measurement date	3,336,443	734,182
Contributions paid to TRS subsequent to the measurement date	667,669	-
Total	\$ 4,004,112	\$ 734,182

The net 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 August 31:	Pension Expense Amount
2025	\$ 458,649
2026	303,661
2027	1,244,285
2028	488,838
2029	106,828
Thereafter	\$ -

J. DEFINED OTHER POST-EMPLOYMENT BENEFITS PLAN

A. 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 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.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

B. 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/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

D. 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 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 percent of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65 percent of salary. Section 1575.204 establishes a public school contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each active employee's pay for fiscal year 2023.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2023	2024
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%
Kingsville Independent School District's 2024 Employer Contributions	\$	182,235
Kingsville Independent School District's 2024 Member Contributions	\$	135,919
Kingsville Independent School District's 2023 NECE On-Behalf Contributions	\$	240,534

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 TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$21.3 million in fiscal year 2023 provided by Rider 14 of the Senate Bill GAA of the 87th Legislature. These amounts were re-appropriated amounts received by the pension and TRS-Care funds in excess of the state's actual obligation and then transferred to TRS-Care.

E. Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2022. Update procedures were used to roll forward the total OPEB liability to August 31, 2023. The actuarial valuation was determined using the following actuarial assumptions.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2021. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2022 TRS pension actuarial valuation that was rolled forward to August 31, 2023:

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

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

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	4.13% as of August 31, 2023
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases Including Inflation	2.95% to 8.95% including inflation
Ad hoc post-employment benefit changes	None

F. Discount Rate

A single discount rate of 4.13 percent was used to measure the total OPEB liability. This was an increase of 0.22 percent in the discount rate since the previous year.

Because the investments are held in cash there is no intention 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 Fidelity "20-year Municipal GO AA Index" as of August 31, 2023, using the Fixed Income Market Data/Yield Curve/Date Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

G. 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 in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (3.13%)	Current Single Discount Rate (4.13%)	1% Increase in Discount Rate (5.13%)
District's proportionate share of the Net OPEB liability:	\$ 5,991,706	\$ 5,087,237	\$ 4,349,169

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

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

At August 31, 2024, the District reported a liability of \$5,087,237 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	\$ 5,087,237
State's proportionate share that is associated with the District	<u>6,138,534</u>
Total	<u>\$ 11,225,771</u>

The net OPEB liability was measured as of August 31, 2022 and rolled forward to August 31, 2023 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB relative to the contributions of all employers to the plan for the period September 1, 2022 thru August 31, 2023.

At August 31, 2023 the employer's proportion of the collective Net OPEB Liability was 0.0229793433%, which was an increase (decrease) of 0.0020847287% from its proportion measured as of August 31, 2022.

Healthcare Cost Trend Rates Sensitivity Analysis

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB liability:	\$ 4,189,085	\$ 5,087,237	\$ 6,242,713

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 (TOL) since the prior measurement period:

- The single discount rate changed from 3.91 percent as of August 31, 2022 to 4.13 percent as of August 31, 2023, accompanied by revised demographic and economic assumptions based on the TRS experience study.

Change 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 (\$2,655,868).

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

For the year ended August 31, 2024, the District recognized OPEB expense of (\$2,655,868) and revenue of (\$1,312,289) for support provided by the State.

At August 31, 2024, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 230,159	\$ 4,279,946
Changes in actuarial assumptions	694,371	3,115,050
Difference between projected and actual investment earnings	2,198	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,335,782	2,003,198
Total as of August 31, 2023 measurement date	2,262,510	9,398,194
Contributions paid to TRS subsequent to the measurement date	182,235	-
Total	\$ 2,444,745	\$ 9,398,194

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

Year ended August 31:	OPEB Expense Amount
2025	\$ (1,754,587)
2026	(1,521,262)
2027	(1,205,373)
2028	(1,050,624)
2029	(825,795)
Thereafter	\$ (778,043)

K. MEDICARE ON BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for 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 must be recognized as equal revenues and expenditures/expenses by each reporting entity. The on behalf payments for Kingsville Independent School District for 2024, 2023 and 2022 were \$110,714, \$114,163, and \$86,350, respectively.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	Special Revenue Funds	Total
N/A	\$ -	\$ -
Total Deferred Revenue	\$ -	\$ -

M. DUE FROM & DUE TO STATE AGENCIES

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 August 31, 2024, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>DUE FROM STATE FUND</u>	<u>STATE ENTITLEMENTS</u>	<u>LOCAL</u>	<u>TOTAL</u>
General	\$ 2,121,558	\$ -	\$2,121,558
Special Revenue	1,076,546		1,076,546
Total	\$ 3,198,104	\$ -	\$3,198,104

<u>DUE TO STATE FUND</u>	<u>STATE ENTITLEMENTS</u>	<u>LOCAL</u>	<u>TOTAL</u>
General	\$ -	\$ -	\$ -

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Debt Service Fund	Other Funds	Total
Property Taxes	\$ 7,449,477	\$ 5,994,266	\$ -	\$ 13,443,743
Penalties, Interest and Other	180,109	81,055	-	261,165
Tax-related Income				
Investment Income	954,190	115,270	-	1,069,460
Food Sales	-	-	36,098	36,098
Co-curricular Student Activities	47,341	-	-	47,341
Other	503,126	-	84,771	587,897
Total	<u>\$ 9,134,243</u>	<u>6,190,591.34</u>	<u>\$ 120,869</u>	<u>\$ 15,445,704</u>

O. HEALTH CARE COVERAGE

During the year ended August 31, 2024, employees of the District were covered by health insurance plan (the Plan). The District paid premiums of \$479 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. The contract between the District and the third-party administrator is renewable January 1, 2025, and terms of coverage and premium costs are included in the contractual provisions.

In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Aetna, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage was in effect for individual claims exceeding \$125,000 and for aggregate loss.

Liabilities for claims in the Internal Service Fund are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated. The outstanding claims plus the incurred but not reported ("IBNR") claim liability estimate of \$186,283 at August 31, 2024 is an actuarial estimate of health care claims outstanding at year end which have not been reported to the plan administrator. A reconciliation of the IBNR claim liability is as follows:

Year	Beginning Balance	Estimated Claims	Claims Payments	Ending Balance
2023	\$ -	\$ 116,202	\$ 61,328	\$ 54,874
2024	54,874	189,607	58,198	186,283

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

P. COMMITMENTS AND CONTINGENCIES

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2024.

Q. MAINTENANCE OF EFFORT-HEALTH CARE

For fully insured districts/entities/risk pools, enter the total amount paid by the district for employee health care premiums as reported to TEA per Note L.

a) Total District Premium paid for health care 2023-2024	<u>\$ 746,101</u>
b) Subtract any non-medical expenditures	
Life Insurance	\$ -
Long-Term Disability	-
c) 2023-2024 Maintenance of Effort	<u>746,101</u>

R. GASB 63

GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources are the acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are incorporated into the definitions of the required components of the residual measure and that measure is renamed as net position, rather than net assets.

S. GASB 68

GASB 68 – establishes standards for accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria as described in GASB 67. This statement replaces the requirements of GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning pension liability

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

T. SHARED SERVICE AGREEMENTS

The Center is the fiscal agent for a Shared Service Arrangement (“SSA”), which provides assistance to support various comprehensive professional development plans to the member districts listed below. The fiscal agent provides all services. According to guidance provided in TEA’s Resource Guide, the Center has accounted for using Model 1 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Member Districts	SSA
N/A	\$ -
Total	\$ -

U. DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the fund level financial statements, the District has the following deferred inflows of resources:

	General Fund	Debt Service
Property Taxes, unavailable	\$ 788,621	\$ 402,044
Total Exhibit C-1	\$ 788,621	\$ 402,044

Deferred outflows of resources and deferred inflows resources related to pensions is \$4,004,112 and \$734,182, respectively. Deferred outflows of resources and deferred inflows resources related to other post-employment benefits is \$2,444,745 and \$9,398,194, respectively. See related details of pension plan obligations in Note I and other post-employment benefits in Note J.

	Beginning Balance	Additions	Reductions	Ending Balance
Deferred Loss on Refunding 2020/2021	\$ 817,826	\$ -	\$ 43,044	\$ 774,783
Total	\$ 817,826	\$ -	\$ 43,044	\$ 774,783

V. GASB 87

The District implemented GASB 87 for reporting leases during the reporting period. A right-to-use lease is defined as a contract that conveys control of another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a “longterm” lease provided in GASB 87 and must meet the capitalization level set by the Board. The right-to-use lease liability is reported in the government-wide statements. The lease liability is calculated as the present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense.

KINGSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2024

With GASB 87, the initial measure of a new right-to-use lease arrangement is reported in government fund types as an other financial source during the current period. Monthly payments are reported as principal and interest payments during the reporting period of the fund level statements.

The right-to-use lease asset capitalization level is determined by the Board of Trustees. The term of the lease must be the noncancelable period during which the District has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. If the lease is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made.

W. GASB 96

The District implemented GASB 96 for reporting subscription-based information technology arrangements (SBITAs) during this reporting period. A SBITA is defined as a contract that conveys control over another entity's IT software as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a SBITA, it must meet the definition of a "long-term" SBITA provided in GASB 96. The right-to-use SBITA liability is reported in the government-wide statements. The SBITA liability is calculated as the present value of the reasonably certain expected payments made over the term of the contract and the interest included in the SBITA payments is recorded as an expense.

X. OTHER (USES)

The District authorized a cash defeasance of \$3,022,733 for Series 2015, Unlimited Tax Refunding Bonds. This item has been recorded as an extraordinary item in accordance with generally accepted accounting principles.

Y. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through February 12, 2025, the date which the financial statements were available to be issued.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



ESCAMILLA & PONECK, LLP

ATTORNEYS AND COUNSELORS

Phone (210) 225-0001 · FAX (210) 225-0041 · escamillaponeck.com

[Closing Date]

\$ _____

KINGSVILLE INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Kleberg County, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2025

WE HAVE ACTED as Bond Counsel for the Kingsville Independent School District (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. In rendering the opinion herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds including the Escrow Agreement between the District and BOKF, NA, Dallas, Texas, as Escrow Agent (the "Escrow Agreement") and the verification report of The Arbitrage Group, Inc., Brenham, Texas, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement (the "Verification Report") all as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bond is a valid and binding obligation of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

THE BONDS are being issued to provide funds to be used (i) to establish an escrow fund pursuant to the Escrow Agreement between the District and Escrow Agent to refund those certain outstanding obligations of the District, and (ii) to pay for costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms. The Refunded Bonds, as defined in the Order, being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Fund and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. The Refunded Bonds being refunded, discharged, paid, and retired with certain of 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 trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapter 1207, Texas Government Code, as amended. In rendering this opinion, we have relied upon the verifications contained in the Verification Report

700 North St. Mary's Street, Suite 850 · San Antonio, Texas 78205

San Antonio

Austin

Dallas

Ft. Worth

Houston

as to the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Bonds.

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

The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limits as to rate or amount, upon taxable property located within the District, except to the extent the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

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, in assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes; however such interest is taken into account in determining the "adjusted financial statement income" (as defined in Section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

WE EXPRESS NO FURTHER OPINION with respect to any 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, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earning income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or have paid or incurred certain expenses allocable to, tax-exempt obligations.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial

condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

THE INTERNAL REVENUE SERVICE HAS AN ONGOING AUDIT PROGRAM to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the District as the taxpayer, and Owners of the Bonds would have no right to participate in the audit process. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

THIS LEGAL OPINION expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully,

APPENDIX D

PERMANENT SCHOOL FUND GUARANTEE PROGRAM

(Dated: April 4, 2025)

The following is to be included in the main body of all offering documents for debt guaranteed by the Permanent School Fund:

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 [] – 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 [] is incorporated herein and made a part hereof for all purposes.

The following is to be included as an appendix to all offering documents on debt guaranteed by the Permanent School Fund:

APPENDIX _____

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

The regular session of the 89th Texas Legislature (the “Legislature”) convened on January 14, 2025, and is scheduled to conclude on June 2, 2025. As of the date of this disclosure, the regular

session is underway. The Texas Governor may call one or more special sessions at the conclusion of the regular session. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the State Board of Education (the “SBOE”), the Permanent School Fund Corporation (the “PSF Corporation”), the Act, and Texas school finance generally. No representation is made regarding any actions the Legislature has taken or may take, but the TEA, SBOE, and PSF Corporation monitor and analyze legislation for any developments applicable thereto.

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, 2024, 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, 2024, 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, 2024, and for a description of the financial results of the PSF for the year ended August 31, 2024, the most recent year for which audited financial information regarding the Fund is available. The 2024 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2024 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 specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, 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 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 also engaged outside 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 requested 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>2015</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>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 ³	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

¹ In millions of dollars. Source: Annual Report for year ended August 31, 2024.

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>
<u>SBOE Distribution Rate¹</u>	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 PSF Corp approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2026-27.

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. The IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE and the SLB). The IPS provides that the Fund's investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;
- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations; and
- 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 September 2024 (which is subject to change from time to time):

Asset Class	Strategic Asset Allocation	Range	
		Min	Max
Cash	2.0%	0.0%	n/a
Core Bonds	10.0%	5.0%	15.0%
High Yield	2.0%	0.0%	7.0%
Bank Loans	4.0%	0.0%	9.0%
Treasury Inflation Protected Securities	2.0%	0.0%	7.0%
Large Cap Equity	14.0%	9.0%	19.0%
Small/Mid-Cap Equity	6.0%	1.0%	11.0%
Non-US Developed Equity	7.0%	2.0%	12.0%
Absolute Return	3.0%	0.0%	8.0%
Real Estate	12.0%	7.0%	17.0%
Private Equity	20.0%	10.0%	30.0%
Private Credit	8.0%	3.0%	13.0%
Natural Resources	5.0%	0.0%	10.0%
Infrastructure	5.0%	0.0%	10.0%

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2023 and 2024, as set forth in the Annual Report for the 2024 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				
ASSET CLASS	August 31, 2024	August 31, 2023	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$3,651.3	\$ 2,975.1	\$ 676.2	22.7%
Domestic Large Cap	8,084.6	7,896.5	188.1	2.4%
Total Domestic Equity	11,735.9	10,871.6	864.3	8.0%
International Equity	4,131.1	7,945.5	(3,814.4)	-48.0%
TOTAL EQUITY	15,867.0	18,817.1	(2,950.1)	-15.7%
FIXED INCOME				
Domestic Fixed Income	-	5,563.7	-	-
US Treasuries	-	937.5	-	-
Core Bonds	8,151.6	-	-	-
Bank Loans	2,564.1	-	-	-
High Yield Bonds	2,699.5	1,231.6	1,467.9	119.2%
Emerging Market Debt	-	869.7	-	-
TOTAL FIXED INCOME	13,415.2	8,602.5	4,812.7	55.9%
ALTERNATIVE INVESTMENTS				

Absolute Return	3,106.0	3,175.8	(69.8)	-2.2%
Real Estate	6,101.0	6,525.2	(424.2)	-6.5%
Private Equity	8,958.8	8,400.7	558.1	6.6%
Emerging Manager Program	-	134.5	-	-
Real Return	-	1,663.7	-	-
Private Credit	2,257.9	-	-	-
Real Assets	4,648.1	4,712.1	(64.0)	-1.4%
TOT ALT INVESTMENTS	25,071.8	24,612.0	459.8	1.9%
UNALLOCATED CASH	2,583.2	348.2	2,235	641.9%
TOTAL PSF(CORP) INVESTMENTS	56,937.2	\$ 52,379.8	\$ 4,557.4	8.7%

Source: Annual Report for year ended August 31, 2024.

The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2024.

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2024

	As of <u>8-31-24</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 277.47
Discretionary Internal Investments	457.01
Other Lands	153.15
Minerals ^{(2), (3)}	<u>4,540.61</u> ⁽⁶⁾
Total Investments ⁽⁴⁾	5,428.23
Cash in State Treasury ⁽⁵⁾	0
Total Investments & Cash in State Treasury	\$ 5,428.23

¹ Unaudited figures from Table 5 in the FY 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

² Historical Cost of investments at August 31, 2024 was: Sovereign Lands \$838,730.24; Discretionary Internal Investments \$318,902,420.97; Other Lands \$37,290,818.76; and Minerals \$13,437,063.73.

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 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 2025 fiscal year, the ratio is 7.86%. At February 27, 2025, there were 188 active open-enrollment charter schools in the State and there were 1,222 charter school campuses authorized under such charters, though as of such date, 264 of such campuses are not currently serving students for various reasons; therefore, there are 958 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number

of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. The Charter District Bond Guarantee Program Capacity (the "CDBGP Capacity") is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program." Other factors that could increase the CDBGP

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

Capacity Limits for the Guarantee Program

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

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

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

<u>Changes in SBOE-determined multiplier for State Capacity Limit</u>	
<u>Date</u>	<u>Multiplier</u>
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25

February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of January 31, 2025 the cost value of the Guarantee Program was \$48,560,433,760 (unaudited), thereby producing an IRS Limit of \$242,802,168,800 in principal amount of guaranteed bonds outstanding.

As of January 31, 2025, the estimated State Capacity Limit is \$169,961,518,160, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State

laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program.

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest

rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At January 31, 2025, the Charter District Reserve Fund contained \$120,355,020, which represented approximately 2.44% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

charter operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2020	\$36,642,000,738	\$46,764,059,745
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 ⁽²⁾	46,276,260,013	56,937,188,265

⁽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, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.2 million, and \$318.9 million, respectively, and market values of approximately \$4,540.6 million, \$277.4 million, \$153.1 million, and \$457.0 million, respectively.

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2020	\$90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603 ⁽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, 2024 (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 \$196,294,405,488, of which \$70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were \$125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was

available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾						
	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
Fiscal Year Ended <u>8/31</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
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 ⁽²⁾	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603

⁽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 January 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$129,723,799,121 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,437 school district issues, aggregating \$124,794,149,121 in principal amount and 109 charter district issues, aggregating \$4,929,650,000 in principal amount. At January 31, 2025 the projected guarantee capacity available was \$39,780,221,830 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2024

The following discussion is derived from the Annual Report for the year ended August 31, 2024, 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 2024, the PSF(CORP) net position was \$57.3 billion. During the year, the PSF(CORP) continued implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. 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, 2024, net of fees, were 10.12%, 7.31%, and 6.32%, 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, 2024.

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 2024 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2024¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

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, 2024.

² Benchmarks are as set forth in the Annual Report for year ended August 31, 2024.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2024 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 2024, \$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, 2024, 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 und different bases of accounting.

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

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

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

Event Notices

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

by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

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.

