HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2025

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CERTIFICATE OF BOARD

Hamshire-Fannett Independent School District	Jefferson	123-914
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ____ disapproved for the year ended August 31, 2025, at a meeting of the Board of Trustees of such school district on the 20th day of January, 2026.

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are): (Attach list as necessary.)

Wathen, DeShong & Juncker, L.L.P.
CPAs & BUSINESS ADVISORS

January 20, 2026

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

Members of the Board:

Report on the Audit of the Financial Statements

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

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

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

Emphasis of Matter – Change of Accounting Principle
As discussed in Note 1. D to the basic financial statements, during the year ended August 31, 2025, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences.* Our opinions are not modified with respect to this matter.

Emphasis of Matter – Prior Period Adjustment
As discussed in Note 17 to the financial statements, the District has recorded prior period adjustments to beginning fund balance and net position. To date, the District and its previous auditor have not reissued the financial statements and related independent auditor's report in the fiscal 2024 annual financial report. 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 District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 and Required Supplementary Information, as listed in the table of contents (pages 54 through 62), be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Supplementary Information (Required TEA Schedules on pages 63 through 67), and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, Supplementary Information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wathen, DeShong & Juncker, L.L.P.
WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

This section of Hamshire-Fannett Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $10,341,977 at August 31, 2025.
- During the year, the District's expenses were $322,646 less than the $27,697,959 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was $27,375,313.
- The General Fund reported a fund balance this year of $8,760,224.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

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

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1
Required Components of
Hamshire-Fannett Independent School
District's Annual Financial Report

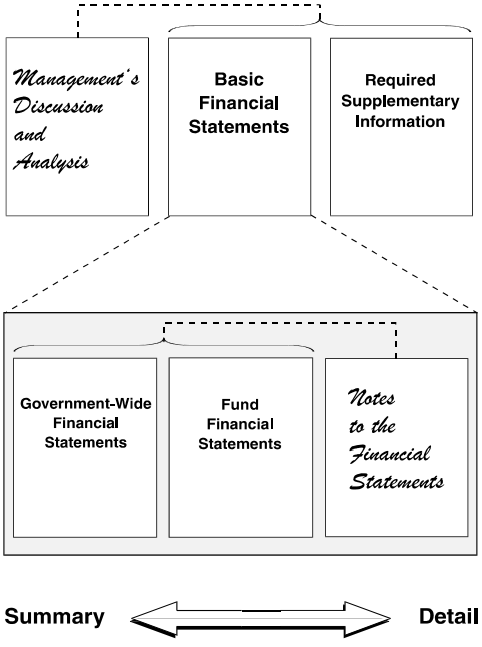


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of Management's Discussion and Analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements	
Type of Statements	**Government-wide**	**Governmental Funds**	**Fiduciary Funds**
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or custodian for someone else's resources
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes *all* of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the year, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base, changes in the District's student population, the makeup of the student population in regards to funding for special programs, and non-funded federal and state mandates.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's *combined* net position was $10,341,977 at August 31, 2025. (See Table A-1).

Table A-1
The District's Net Position

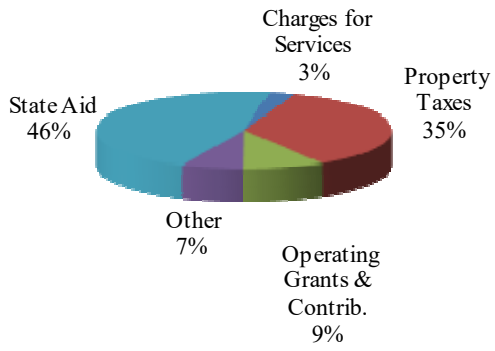
	Governmental Activities		Percentage Change
	2025	2024	
Current and Other Assets	$ 16,707,120	$ 17,000,506	-1.7%
Capital and Non-Current Assets	60,570,556	61,394,376	-1.3%
Total Assets	77,277,676	78,394,882	-1.4%
Deferred Outflows of Resources	2,670,721	3,142,136	-15.0%
Current Liabilities	2,848,024	3,512,537	-18.9%
Long Term Liabilities	63,108,250	62,471,545	1.0%
Total Liabilities	65,956,274	65,984,082	0.0%
Deferred Inflows of Resources	3,650,146	4,688,490	-22.1%
Net Position:			
Invested in Capital Assets	9,727,552	8,831,319	10.1%
Restricted	2,154,129	1,957,616	10.0%
Unrestricted	(1,539,704)	75,511	-2139.0%
Total Net Position	$ 10,341,977	$ 10,864,446	-4.8%

The District's restricted net position consists of $1,828,028 for debt service and $326,101 for federal and state programs.

Changes in net position. The District's total revenues were $27,697,959. A significant portion, 35%, of the District's revenue comes from taxes. (See Figure A-3). 46% comes from state aid – formula grants, while only 3% relates to charges for services.

The total cost of all programs and services was $27,375,313; 66.1% of these costs are for instructional and student services.

Figure A-3 Sources of Revenue for Fiscal Year 2025



Governmental Activities

Property tax rates were approved at $1.3432 per $100 valuation. Of the $1.3432, $1.0492 is the Maintenance and Operations rate, with $0.294 being the Interest and Sinking rate. Average daily attendance decreased by 49.662 students from 2023/2024 to 2024/2025.

Table A-2
Changes in the District's Net Position

	Governmental Activities		Total % Change
	2025	2024	
Revenues:			
Program Revenues			
Charges for Services	$ 784,013	$ 740,833	5.8%
Operating Grants and Contributions	2,458,062	4,053,564	-39.4%
General Revenues			
Property Taxes	9,864,926	10,000,785	-1.4%
Investment Earnings	655,583	937,595	-30.1%
State Aid - Formula	12,714,340	15,327,839	-17.1%
Grants and Contributions not Restricted	588,245	27,656	2027.0%
Other	632,790	53,582	1081.0%
Total Revenues	27,697,959	31,141,854	-11.1%
Expenses:			
Instruction and instructional related	13,092,077	13,222,662	-1.0%
Instructional leadership/school administration	1,413,594	1,583,281	-10.7%
Guidance, social work, health, transportation	2,167,829	2,298,620	-5.7%
Food services	1,440,140	1,198,068	20.2%
Extracurricular activities	1,397,979	1,283,891	8.9%
General Administration	973,493	1,067,215	-8.8%
Plant maintenance and security	4,765,038	6,844,824	-30.4%
Data processing services	400,008	375,583	6.5%
Community Services	135,143	134,449	0.5%
Debt Service	1,590,012	1,551,945	2.5%
Total Expenses	27,375,313	29,560,538	-7.4%
Change in Net Position	322,646	1,581,316	-79.6%
Beginning Net Position	10,864,446	9,283,130	17.0%
Prior Period Adjustment	(845,115)	-	n/a
Ending Net Position	$ 10,341,977	$ 10,864,446	-4.8%

Table A-3 presents cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was $27,375,313.
- The amount that our taxpayers paid for these activities through property taxes was $9,864,926.
- Some of the cost was paid by those who directly benefited from the programs $784,013, or
- By operating grants and contributions $2,458,062.

Table A-3
Net Cost of Selected District Functions

	Total Cost of Services		%	Net Cost of Services		%
	2025	2024	Change	2025	2024	Change
Instruction	$ 12,496,586	$ 12,660,741	-1.3%	$ 11,673,822	$ 10,264,458	13.7%
School Leadership	1,190,579	1,353,312	-12.0%	1,156,141	1,279,812	-9.7%
Student Transportation	1,209,914	1,232,282	-1.8%	1,025,969	1,232,282	-16.7%
Food Services	1,440,140	1,198,068	20.2%	233,676	(78,355)	-398.2%
Extracurricular Activities	1,397,979	1,283,891	8.9%	1,284,615	1,155,479	11.2%
General Administration	973,493	1,067,215	-8.8%	953,295	974,893	-2.2%
Facilities Maintenance and Operations	3,971,733	6,583,697	-39.7%	3,939,515	6,514,232	-39.5%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled $28,123,265, a decrease of 8.6% from the preceding year. Local revenues increased by $135,322 due primarily to increased property tax collections. State revenues decreased by $1,353,851 due primarily to a decrease in instructional materials and school safety revenue. Federal revenues decreased by $1,431,265 due primarily to a decrease in FEMA revenue.

General Fund Budgetary Highlights

- The District had multiple revisions to its budget during the fiscal year. Actual expenditures were $718,072 less than the final budget amounts. The most significant variances were Instruction under budget by $155,533, Curriculum and Instructional Staff Development under budget by $82,075, Facilities Maintenance and Operations under budget by $83,071, Data Processing under budget by $78,167, and Student Transportation under budget by $76,998. Actual revenues were $669,073 under budgeted amounts due to Local and State Revenues being under budget by $379,779 and $426,792 respectively.

- The District has made significant effort over the past several years to bring the General Fund budgeted expenditures in line with supporting revenues. In order to maintain this balance, the District must continuously monitor its General Fund revenues and expenditures, revenues and expenditures in specific program areas, and District staffing levels.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025, the District had invested approximately $101 million in capital assets, including land, equipment, buildings and vehicles. (See Table A-4). This amount represents a net increase of $2,344,423 or 2.4% from last year.

Table A-4
District's Capital Assets

	Governmental Activities		%
	2025	2024	Change
Land	$ 1,059,829	$ 1,059,829	0.0%
Construction in Progress	400,590	35,625,222	-98.9%
Buildings and Improvements	84,849,696	49,111,829	72.8%
Furniture and Equipment	8,249,910	7,856,360	5.0%
Right to-use Lease Assets	2,924,833	2,924,833	0.0%
Infrastructure	3,947,584	2,509,946	57.3%
Totals at Historical Cost	101,432,442	99,088,019	2.4%
Total Accumulated Depreciation	(40,861,886)	(37,693,643)	8.4%
Net Capital Assets	$ 60,570,556	$ 61,394,376	-1.3%

Long-Term Debt

At the end of the fiscal year, the District had $55 million in long-term debt outstanding as shown in Table A-5. The District's bonds presently carry a Moody's rating of Aaa with a Permanent School Fund guarantee and "A+" with no assistance.

Table A-5
District's Long-Term Debt

	Governmental Activities		%
	2025	2024	Change
Bonds and Tax Note Payable	$ 51,077,955	$ 52,712,212	-3.1%
Right to Use Lease Obligations	1,588,747	2,014,901	-21.2%
Compensated Absences	2,379,509	2,255,766	5.5%
Total Long-Term Debt	$ 55,046,211	$ 56,982,879	-3.4%

More detailed information about the District's debt is presented in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials considered many factors when setting the fiscal year 2025 budget and tax rates. Those factors include property values, changes in enrollment, the economy, and legislative mandates.

Student enrollment was budgeted to reflect no increase or decrease from the previous year as the district has seen a decrease in enrollment but a continued increase in attendance rate.

Though property values continue to increase, the legislation increased the homestead exemption from $100,000 to $140,000 and continued the tax compression thereby causing the maintenance and operations tax rate to stay the same. The largest increase in the budget is due to the legislation increasing the Foundation School Fund for a mandated increase to teacher salaries of $4,000 or $8,000 for 3-4 and 5+ years of service, respectively.

- Certified appraised value used for the 2026 (2025-2026) budget preparation decreased by $87,226,381, or 9.25% from 2025.

- General Operating Fund spending per student, exclusive of a major renovation program, increases in the 2026 budget from $12,711 to $13,632. This is a 6.76% increase from the preceding year.

- The District's 2026 refined average daily attendance is expected to be 1,861, which is an increase of 24 students over 2024-2025.

These indicators were considered when adopting the General Fund budget for 2026. Amounts available for appropriation in the General Fund budget are $25.2 million which is an increase of 15.8% from the final 2025 actual revenues of $21.8 million.

Operating expenditures are budgeted at $25.4 million, an increase of 12% from the final 2025 actual expenditures of $22.7 million.

If these estimates are realized, the District's budgetary undesignated General Fund fund balance is expected to decrease $120,507 at the close of 2026.

The District has committed $720,000 for insurance deductible in the event of a catastrophic loss and $241,062 for campus level activities as of the fiscal year ended August 31, 2025.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, parents and creditors with a general overview of the District's finances and to demonstrate 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 Department.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

HAMSHIRE-FANNETT ISD
STATEMENT OF NET POSITION
AUGUST 31, 2025

Data Control Codes		Primary Government: Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	$ 467,022
1120	Current Investments	11,077,130
1220	Property Taxes - Delinquent	1,292,478
1230	Allowance for Uncollectible Taxes	(142,173)
1240	Due from Other Governments	2,277,314
1290	Other Receivables, Net	59,314
1410	Prepayments	1,676,035
	Capital Assets:	
1510	Land	1,059,829
1520	Buildings, Net	54,595,236
1530	Furniture and Equipment, Net	2,996,322
1550	Right-to-Use Leased Assets, Net	99,483
1580	Construction in Progress	400,590
1590	Infrastructure, Net	1,419,096
1000	Total Assets	77,277,676
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred Outflow Related to TRS Pension	1,054,436
1706	Deferred Outflow Related to TRS OPEB	1,616,285
1700	Total Deferred Outflows of Resources	2,670,721
LIABILITIES		
2110	Accounts Payable	1,496,801
2140	Interest Payable	70,789
2150	Payroll Deductions and Withholdings	142,349
2160	Accrued Wages Payable	979,956
2200	Accrued Expenses	26,061
2300	Unearned Revenue	132,068
	Noncurrent Liabilities:	
2501	Due Within One Year: Loans, Note, Leases, etc.	2,468,582
	Due in More than One Year:	
2502	Bonds, Notes, Loans, Leases, etc.	52,577,629
2540	Net Pension Liability (District's Share)	4,607,867
2545	Net OPEB Liability (District's Share)	3,454,172
2000	Total Liabilities	65,956,274
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS Pension	223,496
2606	Deferred Inflow Related to TRS OPEB	3,426,650
2600	Total Deferred Inflows of Resources	3,650,146
NET POSITION		
3200	Net Investment in Capital Assets and Right-to-Use Lease Assets	9,727,552
	Restricted:	
3820	Restricted for Federal and State Programs	326,101
3850	Restricted for Debt Service	1,828,028
3900	Unrestricted	(1,539,704)
3000	Total Net Position	$ 10,341,977

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

HAMSHIRE-FANNETT ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 12,496,586	$ 120,772	$ 701,992	$ (11,673,822)
12	Instructional Resources and Media Services	333,197	-	6,347	(326,850)
13	Curriculum and Instructional Staff Development	262,294	-	57,311	(204,983)
21	Instructional Leadership	223,015	-	20,515	(202,500)
23	School Leadership	1,190,579	-	34,438	(1,156,141)
31	Guidance, Counseling, and Evaluation Services	784,996	-	335,835	(449,161)
33	Health Services	172,919	-	5,261	(167,658)
34	Student (Pupil) Transportation	1,209,914	-	183,945	(1,025,969)
35	Food Services	1,440,140	567,439	639,025	(233,676)
36	Extracurricular Activities	1,397,979	95,802	17,562	(1,284,615)
41	General Administration	973,493	-	20,198	(953,295)
51	Facilities Maintenance and Operations	3,971,733	-	32,218	(3,939,515)
52	Security and Monitoring Services	196,857	-	52,101	(144,756)
53	Data Processing Services	400,008	-	4,456	(395,552)
72	Debt Service - Interest on Long-Term Debt	1,540,062	-	-	(1,540,062)
73	Debt Service - Bond Issuance Cost and Fees	49,950	-	-	(49,950)
81	Capital Outlay	596,448	-	346,858	(249,590)
93	Payments Related to Shared Services Arrangements	25,082	-	-	(25,082)
95	Payments to Juvenile Justice Alternative Ed. Prg.	18,860	-	-	(18,860)
99	Other Intergovernmental Charges	91,201	-	-	(91,201)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 27,375,313	$ 784,013	$ 2,458,062	(24,133,238)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	7,784,424
DT	Property Taxes, Levied for Debt Service	2,080,502
SF	State Aid - Formula Grants	12,714,340
GC	Grants and Contributions not Restricted	588,245
IE	Investment Earnings	655,583
MI	Miscellaneous Local and Intermediate Revenue	637,674
S2	Special Item - Loss on Sale of Property	(4,884)
TR	Total General Revenues & Special Items	24,455,884
CN	Change in Net Position	322,646
NB	Net Position - Beginning as Previously Reported	10,864,446
PA	Prior Period Adjustment	(845,115)
	Net Position - Beginning as Restated and Adjusted	10,019,331
NE	Net Position - Ending	$ 10,341,977

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

GOVERNMENTAL FUND FINANCIAL STATEMENTS

HAMSHIRE-FANNETT ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2025

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	ASSETS			
1110	Cash and Cash Equivalents	$ (148,029)	$ 256	$ 28,772
1120	Investments - Current	6,579,641	1,672,077	2,825,412
1220	Property Taxes - Delinquent	1,068,282	224,196	-
1230	Allowance for Uncollectible Taxes	(117,511)	(24,662)	-
1240	Due from Other Governments	2,093,900	2,661	-
1260	Due from Other Funds	126,597	-	-
1290	Other Receivables	-	-	-
1410	Prepayments	1,675,389	-	-
1000	Total Assets	$ 11,278,269	$ 1,874,528	$ 2,854,184
	LIABILITIES			
2110	Accounts Payable	$ 337,072	$ -	$ 1,076,985
2150	Payroll Deductions and Withholdings Payable	134,199	-	-
2160	Accrued Wages Payable	941,373	-	-
2170	Due to Other Funds	-	-	-
2200	Accrued Expenditures	26,061	-	-
2300	Unearned Revenue	128,569	-	-
2000	Total Liabilities	1,567,274	-	1,076,985
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	950,771	199,534	-
2600	Total Deferred Inflows of Resources	950,771	199,534	-
	FUND BALANCES			
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	-	-
3470	Capital Acquisition and Contractural Obligation	-	-	1,777,199
3480	Retirement of Long-Term Debt	-	1,674,994	-
	Committed Fund Balance:			
3545	Other Committed Fund Balance	720,000	-	-
3600	Unassigned Fund Balance	8,040,224	-	-
3000	Total Fund Balances	8,760,224	1,674,994	1,777,199
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 11,278,269	$ 1,874,528	$ 2,854,184

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

Other Funds	Total Governmental Funds
$ 586,023	$ 467,022
-	11,077,130
-	1,292,478
-	(142,173)
180,753	2,277,314
-	126,597
59,314	59,314
646	1,676,035
$ 826,736	$ 16,833,717
$ 82,744	$ 1,496,801
8,150	142,349
38,583	979,956
126,597	126,597
-	26,061
3,499	132,068
259,573	2,903,832
-	1,150,305
-	1,150,305
326,101	326,101
-	1,777,199
-	1,674,994
241,062	961,062
-	8,040,224
567,163	12,779,580
$ 826,736	$ 16,833,717

	Total Fund Balances - Governmental Funds	$	12,779,580
1	Capital assets and leases used in governmental activities are not financial resources, and, therefore are not reported in governmental funds.		60,570,556
2	Property taxes receivable are not available to pay for current period expenditures and, therefore are deferred in the funds.		1,150,305
3	Other long-term liabilities which are not due and payable in the current period and, therefore, are not reported in the funds.		(2,379,508)
4	Bonds (including premiums) are not due and payable in the current period and, therefore, are not reported in the funds.		(52,666,703)
5	Included in the items related to liabilities and deferred inflows 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 $1,054,436, a deferred resource inflow in the amount of $223,496 and a net pension liability in the amount of $4,607,867. This resulted in a decrease in net position.		(3,776,927)
6	Included in the items related to liabilities and deferred inflows 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 $1,616,285, a deferred resource inflow in the amount of $3,426,650 and a net OPEB liability in the amount of $3,454,172. This resulted in a decrease in net position.		(5,264,537)
7	Interest payable on long-term debt not recognized in the funds.		(70,789)
29	**Net Position of Governmental Activities**	$	10,341,977

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

HAMSHIRE-FANNETT ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 7,760,130	$ 2,873,741	$ 273,941
5800	State Program Revenues	13,723,091	469,418	-
5900	Federal Program Revenues	314,498	-	-
5020	Total Revenues	21,797,719	3,343,159	273,941
	EXPENDITURES:			
	Current:			
0011	Instruction	10,492,907	-	-
0012	Instructional Resources and Media Services	201,595	-	-
0013	Curriculum and Instructional Staff Development	219,167	-	-
0021	Instructional Leadership	216,310	-	-
0023	School Leadership	1,156,159	-	-
0031	Guidance, Counseling, and Evaluation Services	466,731	-	-
0033	Health Services	159,974	-	-
0034	Student (Pupil) Transportation	1,049,002	-	-
0035	Food Services	-	-	-
0036	Extracurricular Activities	1,145,573	-	-
0041	General Administration	998,764	-	-
0051	Facilities Maintenance and Operations	4,793,734	-	-
0052	Security and Monitoring Services	152,117	-	-
0053	Data Processing Services	364,668	-	-
	Debt Service:			
0071	Principal on Long-Term Liabilities	471,045	1,465,000	-
0072	Interest on Long-Term Liabilities	80,290	1,631,021	-
0073	Bond Issuance Cost and Fees	-	3,450	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	550,148	-	660,799
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	25,082	-	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	18,860	-	-
0099	Other Intergovernmental Charges	91,201	-	-
6030	Total Expenditures	22,653,327	3,099,471	660,799
1200	Net Change in Fund Balances	(855,608)	243,688	(386,858)
0100	Fund Balance - September 1 (Beginning)	8,449,827	1,431,306	2,164,057
1300	Prior Period Adjustment	1,166,005	-	-
	as Restated and Adjusted	9,615,832	1,431,306	2,164,057
3000	Fund Balance - August 31 (Ending)	$ 8,760,224	$ 1,674,994	$ 1,777,199

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

	Other Funds	Total Governmental Funds
$	888,866	$ 11,796,678
	425,761	14,618,270
	1,393,819	1,708,317
	2,708,446	28,123,265
	701,221	11,194,128
	-	201,595
	51,839	271,006
	15,027	231,337
	-	1,156,159
	322,892	789,623
	-	159,974
	4,625	1,053,627
	1,382,202	1,382,202
	20,944	1,166,517
	-	998,764
	-	4,793,734
	49,484	201,601
	-	364,668
	-	1,936,045
	-	1,711,311
	-	3,450
	346,858	1,557,805
	-	25,082
	-	18,860
	-	91,201
	2,895,092	29,308,689
	(186,646)	(1,185,424)
	509,163	12,554,353
	244,646	1,410,651
	753,809	13,965,004
$	567,163	$ 12,779,580

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

Total Net Change in Fund Balances - Governmental Funds		$ (1,185,424)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation.		(823,820)
Capital outlays	$ 2,430,122	
Depreciation expense	(3,249,058)	
Gain (loss) on disposed assets	(4,884)	
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		143,909
Prior year delinquent taxes collected in the year ended August 31, 2025	$ 188,526	
Change in current year uncollected levy net of allowance for uncollectible portion	(44,617)	
The repayment of the principal of long-term debt and leases consumes the current financial resources of governmental funds. This transaction has no effect on net assets.		1,937,654
Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		124,749
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. Compensated absences expense was $123,743.		(123,743)
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 $439,044. 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 net position totaling $425,119. 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 $253,027. The net result is an increase (decrease) in the change in net position.		(239,102)
GASB 75 required that certain 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 $104,440. 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 net position totaling $103,375. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense (increased) decreased the change in net position by $(487,358). The net result is an increase (decrease) in the change in net position.		488,423
Change in Net Position of Governmental Activities		$ 322,646

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

FIDUCIARY FUND FINANCIAL STATEMENTS

EXHIBIT E-1

HAMSHIRE-FANNETT ISD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2025

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	$ 92,396
Total Assets	92,396
NET POSITION	
Restricted for Other Purposes	92,396
Total Net Position	$ 92,396

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

HAMSHIRE-FANNETT ISD
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

	Custodial Fund
ADDITIONS:	
Miscellaneous Revenue - Student	$ 78,260
Total Additions	78,260
DEDUCTIONS:	
Supplies and Materials	75,774
Total Deductions	75,774
Change in Fiduciary Net Position	2,486
Total Net Position - September 1 (Beginning)	89,910
Total Net Position - August 31 (Ending)	$ 92,396

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hamshire-Fannett Independent School District (the "District") is a public educational entity operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 56, and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of 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 these funding source 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 this reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges for services such as food service or extracurricular activities and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

The **G*eneral Fund*** is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund, and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

The ***Debt Service Fund*** accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The ***Capital Projects Fund*** accounts for proceeds and expenditures of voter approved bonded debt.

Additionally, the District reports the following Fiduciary Fund types:

Fiduciary 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.

Custodial Funds: These funds are used to account for resources held for others in a custodial capacity. The District utilizes this fund type to account for funds held on behalf of student clubs and organizations. Student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

D. ACCOUNTING CHANGES

In accordance with *GASB Statement 100*, accounting changes for the year ended August 31, 2025 are as follows:

Change in Accounting Principle. Per *GASB Statement 101, Compensated Absences*, the estimated liability for compensated absences has been revised. See Note 1–E. part 5. – Compensated Absences for further explanation of the change.

E. ASSETS, LIABILITIES, AND NET POSITION

1. Cash and Cash Equivalents

The District’s cash and cash equivalents are considered to be cash on hand and demand deposits.

2. Property Taxes

Property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 11% of the outstanding property taxes at August 31, 2025.

3. Inventories

The purchase method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are expensed when purchased. Any inventory at year end is considered immaterial to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

4. Capital Assets

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

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

Assets	Years
Buildings	30
Building improvements	20
Equipment	5-18
Buses	15
Vehicles	7

5. Compensated Absences

District professional and paraprofessional employees earn 10 sick leave days each year. Local sick leave is cumulative with a maximum accumulation limit of 100 leave days. Expenditures are recognized by the District in the period earned. The estimated compensated absences liability is recorded in the Government-Wide Statement of Net Position and in the General Long-term Debt Account Group. The liability is estimated to be $2,379,509 at August 31, 2025. The District recorded expense of $123,743 for the year ended August 31, 2025.

During the year ended August 31, 2025, the District adopted *Governmental Accounting Standards Board Statement 101, Compensated Absences*. The statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, the District considered relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits is not included in the liability for compensated absences.

The implementation of *GASB 101* resulted in an increase in the compensated absences balance of $2,255,766, which the District considers to be a significant amount in relation to the financial statements as a whole, and as such, is reflected as a prior period adjustment.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

6. *Leases*

The District is a lessee for noncancellable leases of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset in the government-wide financial statements. The lease liability is initially measured at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of payments made. The lease asset is measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. The lease asset is amortized on a straight-line basis over its useful life.

The District used the interest rate charged by the lessor as the discount rate if available. When the interest rate charged by the lessor is not available, the District uses its estimated incremental borrowing rate as the discount rate. The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are the fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of the lease liabilities. Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are amortized over the term of the related debt.

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

8. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position (Exhibit A-1) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has two types of items that qualify for reporting in this category. Contributions made to the pension plan and the OPEB plan in the 2025 fiscal year are classified as deferred outflows of resources in the government-wide statement of net position.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

8. *Deferred Outflows/Inflows of Resources (continued)*

In addition to liabilities, the statement of financial position (Exhibit A-1) will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items; the first arises only under a modified accrual basis of accounting that qualifies for the reporting in this category. Accordingly, the item unavailable revenue – property taxes, is reported only in the governmental funds balance sheet (Exhibit C-1). This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available. The second is the deferrals of pension expense that result from the implementation of GASB Statement 68 which is reported only in the government-wide statement of net position (Exhibit A-1). The third is the deferrals of OPEB expense that result from the implementation of GASB Statement 75, which is reported only in the government-wide statement of net position (Exhibit A-1).

9. Fund Equity

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

- *Nonspendable fund balance* – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., Board of Trustees). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

- *Assigned fund balance* – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board or by an official or body to which the Board delegates the authority.

- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. At August 31, 2025, the Hamshire-Fannett Independent School District General Fund reported $720,000 as committed for insurance deductible in the event of a catastrophic loss. At August 31, 2025, the District Special Revenue Funds reported $241,062 as committed to campus level activities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. ASSETS, LIABILITIES, AND NET POSITION (CONTINUED)

10. *Net Position Flow Assumption*

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

11. *Fund Balance Flow Assumptions*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Use of Estimates

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

13. *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 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.

14. *Other Post-Employment Benefits (OPEB)*

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

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

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

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

B. REQUIRED INDIVIDUAL FUND DISCLOSURES

For the year ended August 31, 2025, no Food Service Special Revenue Fund functional expenditure categories exceeded budget. No Debt Service Fund functional expenditure categories exceeded budget. General Fund functions 71 Principal on Long-Term Liabilities and 72 Interest on Long-Term Liabilities exceeded budget by $43,962 and $4,636 respectively. There were no fund balances in a deficit position.

C. DATA CONTROL CODES

Data control codes refer to the account code structure prescribed by the Texas Education Agency, Financial Accountability System Resource Guide.

D. HEALTH CARE

The District contributes to the State sponsored healthcare program $417 per month per employee. Employees, at their option, contribute for dependent coverage through payroll withholdings.

The District does not provide any post-retirement health benefits to its employees.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS

The District has a limited risk management program for workers' compensation that is self-funded. The estimated liability for open claims is reported in the General Fund at August 31, 2025 and is based on the requirements of Governmental Accounting Standards Board 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. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability booked is the undiscounted estimate of the actuary.

Changes in the balances of claims liabilities during the most recent two years are as follows:

	2025	2024
Claims liabilities (including incurred but not reported), beginning of year	$ 22,597	$ 5,776
Incurred claims (net of adjustment of prior year allowances)	20,558	98,045
Claims paid	(22,534)	(81,224)
Claims liabilities (including incurred but not reported), end of year	$ 20,621	$ 22,597

The District also holds a separate Workers' Compensation policy with $110,456 for any excess liabilities.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS (CONTINUED)

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

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

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

NOTE 3.. BUDGETARY LEGAL COMPLIANCE

The Official Budget was prepared for adoption for the General Fund, Food Service Fund and Debt Service Fund prior to August 20, 2024 and was adopted by the Board on August 26, 2024. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to increase the overall budget allocations. Control of appropriations by the Board is maintained within Fund Groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System.

Should any change in the approved budget be required, budget amendment requests are presented to the Board for consideration. Amendments are to be requested and approved before the fact and once approved are reflected in the official minutes. During the year, the budget was properly amended in accordance with the above procedures.

NOTE 4. DEPOSITS AND INVESTMENTS

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

1. Cash Deposits: At August 31, 2025, the carrying amount of the District's cash, savings and time deposits was $561,079. The bank balance was $632,995. During 2024-2025, the District's combined deposits were fully insured by federal depository insurance or securities pledged to the District and held by the depository's agent in the District's name.

2. 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.

   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 practices, 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 programs, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools (9) guaranteed investment contracts and (10) commercial paper.

   A private purpose trust fund, the earnings of which are restricted to scholarship awards, holds publicly traded common stock donated to the District by the initiator of the scholarship fund.

3. Deposit and Investment Risks:

   Interest rate risk. In accordance with its investing policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one year or less.

   Credit risk. For fiscal year 2025, the District invested in TexSTAR, TexPool and Lone Star Investment Pool. TexPool is duly chartered and administered by the State Comptroller's Office. As of August 31, 2025, the District's investments in TexPool were rated AAA by Standard & Poor's Investors Service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. The District's investments in Lone Star Investment Pool were rated AAA by Standard & Poor's Investors Service. TexSTAR is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by Hilltop Securities and J.P. Investment Management Inc. The District's investments in TexSTAR were rated AAA by Standard & Poor's Investors Service.

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

3. Deposit and Investment Risks (continued):

Concentration of credit risk. The District's investment policy does not limit an investment in any one issuer. The District monitors the need to diversify investments on a regular basis.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2025, District deposits at the local depository were insured and collateralized with securities held by the depository's agent and in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the fact that investments are insured or registered, or the investments are held by the District or its agent in the District's name.

The District's investments at August 31, 2025 are shown below:

	Maturity	Governmental Funds Fair Value
Lone Star	AAAm 23 Days	$ 4,664,525
TexSTAR	AAAm 34 Days	4,497,490
TexPool	AAAm 36 Days	1,915,116
		$ 11,077,131

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 investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

3. Deposit and Investment Risks (continued):

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

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

Fair values of TexPool are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, The State of Texas. Fair values of Lone Star Investment Pool Liquidity Fund are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, First Public, LLC. Fair values of TexSTAR are based on quoted market prices of the underlying assets as provided by the Fund Sponsors, Hilltop Securities and J.P. Investment Management Inc. These investments are reported by the District at cost which approximates fair value. Governmental Accounting Standards Board Statement (GASB) No. 79, "Certain External Investment Pools and Pool Participants" allows the reporting of these investments at cost due to short-term maturities.

NOTE 5. PROPERTY TAXES

Property taxes are considered available when collected within the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll on August 1, 2024, upon which the levy for the 2024-2025 fiscal year was based, was $1,020,887,094. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2025, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $1.04919 and $0.29399 per $100 valuation, respectively, for a total of $1.34318 per $100 valuation.

NOTE 5. PROPERTY TAXES (CONTINUED)

Current tax collections for the year ended August 31, 2025 were 96.3% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2025, property taxes receivable, net of estimated uncollectible taxes of $117,511and $24,662, totaled $950,771 and $199,534 for the General and Debt Service Funds, respectively.

NOTE 6. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2025, are summarized below. All federal grants shown below are passed through the TEA or other pass-through entities and are reported on the combined financial statements as Due from Other Governments.

Fund	Local Governments	State Entitlements and Awards	Federal Grants	Total
General	$ 6,778	$ 2,087,122	$ -	$ 2,093,900
Special Revenue	-	-	180,753	180,753
Debt Service	2,661	-	-	2,661
Total	$ 9,439	$ 2,087,122	$ 180,753	$ 2,277,314

NOTE 7. CAPITAL ASSETS

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

	Balance September 1, 2024	Additions	Deletions	Transfers	Balance August 31, 2025
Governmental activities:					
Capital assets, not being depreciated					
Land	$ 1,059,829	$ -	$ -	$ -	$ 1,059,829
Construction in Progress	35,625,222	400,590	-	(35,625,222)	400,590
Total capital assets not being depreciated	36,685,051	400,590	-	(35,625,222)	1,460,419
Capital assets, being depreciated					
Buildings and Improvements	49,111,829	112,645	-	35,625,222	84,849,696
Furniture and Equipment	7,856,360	479,249	(85,699)	-	8,249,910
Right to use - Lease Assets	2,924,833	-	-	-	2,924,833
Infrastructure	2,509,946	1,437,638	-	-	3,947,584
Total capital assets being depreciated	62,402,968	2,029,532	(85,699)	35,625,222	99,972,023
Less accumulated depreciation for:					
Buildings and Improvements	(27,651,298)	(2,603,162)	-	-	(30,254,460)
Furniture and Equipment	(4,878,393)	(456,010)	80,815	-	(5,253,588)
Right to use - Lease Assets	(2,781,882)	(43,468)	-	-	(2,825,350)
Infrastructure	(2,382,070)	(146,418)	-	-	(2,528,488)
Total accumulated depreciation	(37,693,643)	(3,249,058)	80,815	-	(40,861,886)
Total capital assets being depreciated, net	24,709,325	(1,219,526)	(4,884)	35,625,222	59,110,137
Governmental activities capital assets, net	$ 61,394,376	$ (818,936)	$ (4,884)	$ -	$ 60,570,556

Depreciation expense was charged to functions of the District as follows:

Governmental activities:		
11	Instruction	$ 1,924,710
12	Library & Media	139,797
23	Campus Administration	83,803
31	Guidance, Counseling & Evaluation Services	28,427
33	Health Services	19,964
34	Transportation	156,287
35	Food Services	276,676
36	Cocurricular/Extracurricular Activities	272,547
41	General Administration	6,603
51	Maintenance	294,564
53	Data Processing	45,680
Total depreciation expense-governmental activities		$ 3,249,058

NOTE 8. DEFINED BENEFIT PENSION PLAN

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.

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered 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 above. Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 to provide eligible retirees with a one-time stiped and an ad hoc cost-of-living-adjustment (COLA).

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

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

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

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

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6 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 through 2025.

Contribution Rates

	2025	2024
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
Current Fiscal Year Employer Contributions		$ 439,044
Current Year Member Contributions		$ 1,006,646
2024 Measurement Year NECE On-Behalf Contributions		$ 720,416

Contributors to the plan include active members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, 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, 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 including public 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 the new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source, from non-educational and general, or local funds.

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions. (Continued)
In addition to the employer contributions listed on the previous page, there is an additional surcharge an employer is subject to:

- All public schools, must contribute 1.9 percent of the member's salary beginning in fiscal year 2024, gradually increasing to 2 percent in the 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.

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

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate as of August 2024	3.87%**
Last year ending August 31 in Projection Period (100 Years)	2123
Inflation	2.3%
Salary Increases Including Inflation	2.95% to 8.95%
Ad hoc Post Employment Benefit Changes	None

***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"*

The actuarial assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2023.

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

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

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

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate. (Continued)

Asset Allocation and Long-Term Expected Real Rate of Return

Asset Class	Target Allocation %[1]	Long-Term Expected Geometric Real Rate of Return[2]	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.4%	1.00%
Non-U.S. Developed	13.0%	4.2%	0.80%
Emerging Markets	9.0%	5.2%	0.70%
Private Equity	14.0%	6.7%	1.20%
Stable Value			
Government Bonds	16.0%	1.9%	0.40%
Absolute Return[4]	0.0%	4.0%	0.00%
Stable Value Hedge Funds	5.0%	3.0%	0.20%
Real Return			
Real Assets	15.0%	6.6%	1.20%
Energy and Natural Resources and Infrastructure	6.0%	5.6%	0.40%
Commodities	0.0%	2.5%	0.00%
Risk Parity			
Risk Parity	8.0%	4.0%	0.40%
Asset Allocation Leverage			
Cash	2.0%	1.0%	0.00%
Asset Allocation Leverage	-6.0%	1.3%	-0.10%
Inflation Expectation			2.40%
Volatility Drag[3]			-0.70%
Expected Return	100.0%		7.90%

[1] *Target Allocations are based on the FY2024 policy model.*

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

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

[4] *Absolute Return includes Credit Sensitive Investments.*

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1 percentage point less than or 1 percentage point greater than the discount rate that was used (7.00%) in measuring the 2024 Net Pension Liability.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Distrtict's proportionate share of the net pension liability:	$ 7,359,931	$ 4,607,867	$ 2,327,586

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension. At August 31, 2025, Hamshire-Fannett Independent School District reported a liability of $4,607,867 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 4,607,867
State's proportionate share that is associated with the District	7,808,913
Total	$ 12,416,780

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

At August 31, 2024, the employer's proportion of the collective net pension liability was 0.0075434703% which was a decrease of 0.0000195943% from its proportion measured as of August 31, 2023.

Changes in Assumptions and Benefits Since the Prior Actuarial Valuation.
The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

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

NOTE 8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in Assumptions and Benefits Since the Prior Actuarial Valuation. (Continued)
For the year ended August 31, 2025, the District recognized pension expense of $1,611,442 and revenue of $933,296 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 253,979	$ 35,976
Changes in actuarial assumptions	237,914	31,896
Difference between projected and actual investment earnings	28,009	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	95,490	155,624
Total as of August 31, 2024 measurement date	615,392	223,496
Contributions paid to TRS subsequent to the measurement date	439,044	-
Total	$ 1,054,436	$ 223,496

The District recognized $439,044 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ending August 31, 2026. The other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2026	$ 15,136
2027	475,388
2028	18,003
2029	(130,982)
2030	14,353
Thereafter	(2)

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

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

Benefits Provided. TRS-Care provides health insurance coverage to retirees from public schools 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 postemployment benefit changes; including automatic COLAs.

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

TRS-Care Monthly Premium for Retirees

	Medicare	Non-Medicare
Retiree*	$ 135	$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

* or surviving spouse

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

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Contributions. (Continued) 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 public school. 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 2024. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates

	2025	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%

Current Fiscal Year Employer Contributions	$ 104,440
Current Year Member Contributions	$ 79,313
2024 Measurement Year NECE On-Behalf Contributions	$ 129,527

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 employers hire a TRS retiree, employers are required to pay to TRS Care a monthly surcharge of $535 per retiree.

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

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

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

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

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.3%
Single Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Costs – From Birth to Death"
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	2.95% to 8.95%, including inflation
Ad hoc post-employment benefit changes	None

Discount rate. A single discount rate of 3.87 percent was used to measure the total OPEB liability. There was a decrease of 0.26 percent in the discount rate since the previous year.

Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the Single Discount Rate is equal to the prevailing municipal bond rate.

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

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the net OPEB liability if the discount rate used was 1 percentage point less than and 1 percentage point greater than the discount rate that was used (3.87%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.87%)	Current Single Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
District's proportionate share of the Net OPEB liability:	$ 4,103,718	$ 3,454,172	$ 2,929,330

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

	1% Decrease	Current Single Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB liability:	$ 2,812,911	$ 3,454,172	$ 4,289,801

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At August 31, 2025, the District reported a liability of $3,454,172 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$	3,454,172
State's proportionate share that is associated with the District		4,328,031
Total	$	7,782,203

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

At August 31, 2024 the employer's proportion of the collective net OPEB liability was 0.0113805538% which was a decrease of 0.0001349399% from its proportion measured as of August 31, 2023.

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

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

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Changes of Benefit Terms Since the Prior Measurement Date (continued).

For the year ended August 31, 2024, the District recognized OPEB expense of $($946,547) and revenue of ($562,564) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	$ 662,049	$ 1,723,819
Changes in actuarial assumptions	442,093	1,127,057
Difference between projected and actual investment earnings	-	9,673
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	407,703	566,101
Total as of August 31, 2024 measurement date	1,511,845	3,426,650
Contributions paid to TRS subsequent to the measurement date	104,440	-
Total	$ 1,616,285	$ 3,426,650

The District recognized $104,440 as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflow and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2026	$ (473,890)
2027	(317,446)
2028	(430,936)
2029	(324,138)
2030	(231,089)
Thereafter	(137,306)

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT PLANS (CONTINUED)

Medicare Part D On-Behalf Payments. The Medicare Prescription Drug Act of 2003, which became 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 for Hamshire-Fannett Independent School District for the years ended August 31, 2025, 2024 and 2023 were $87,592, $61,830, and $61,328, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement for a portion of the cost of health care benefits to retirees between the ages of 55-64 and their covered dependents. TRS-Care did not participate in this program for the year ended August 31, 2025.

During the fiscal year ended August 31, 2025, the District paid $5,350 for previously retired public school employees for whom the District had a TRS-Care Premium payment responsibility.

NOTE 10. BONDS AND TAX NOTE PAYABLE

The District's bonds and tax note payable consist of general obligation bonds, unlimited tax bonds issued to provide funds for the construction of major capital facilities, and a limited maintenance tax note. General obligation bonds and unlimited tax bonds are direct obligations and pledge the full faith and credit of the District. The current requirements for general obligation bonds and unlimited tax bonds and related interest expenditures are accounted for in the Debt Service Fund. The maintenance tax note is secured by and payable from a pledge of ad valorem taxes in the General Fund.

As of August 31, 2025, the District did not have any authorized but unissued bonds.

In July 2012, the District issued $2,035,000 of unlimited tax school building bonds (Series 2012). The proceeds of the building bonds were used to pay for and finance expansion, additions, renovations, improvements to and equipping of existing school cafeterias and computer technology upgrades.

In June 2015, the District issued $19,425,000 of unlimited tax school building bonds (Series 2015). The proceeds of the building bonds were used for the construction and equipping of a new elementary school.

In July 2021, the District issued $32,650,000 of unlimited tax school building bonds (Series 2021). The proceeds of the building bonds were used to pay for the construction, acquisition, renovation and equipment of school buildings in the District (and any necessary or related removal of existing facilities) and for the purchase of necessary sites, if any, for school buildings.

In April 2022, the District issued $1,420,000 of unlimited tax school building bonds (Series 2022). The proceeds of the building bonds were used to pay for the construction, acquisition and equipping of a concession building at the District's high school football stadium.

NOTE 10. BONDS AND TAX NOTE PAYABLE (CONTINUED)

Changes in bonds and tax note payable

Bonds and tax note payable activity for the year ended August 31, 2025 were as follows:

Series	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
2012 U/L Tax Building							
Bond	1.0-2.75%	$2,035,000	$ 980,000	$ -	$ (105,000)	$ 875,000	$ 110,000
Premium		22,530	14,334	-	(2,049)	12,285	2,049
2015 U/L Tax Building							
Bond	3.0-4.0%	19,425,000	14,160,000	-	(1,075,000)	13,085,000	1,105,000
Premium		136,387	97,423	-	(9,741)	87,682	9,741
2021 U/L Tax Building							
Bond	2.0-4.0%	32,650,000	32,085,000	-	(195,000)	31,890,000	205,000
Premium		4,449,977	4,004,978	-	(148,333)	3,856,645	148,333
2022 U/L Tax Building							
Bond	5.00%	1,420,000	1,270,000	-	(90,000)	1,180,000	100,000
Premium		118,745	100,477	-	(9,134)	91,343	9,134
Total bonds and tax note payable			$ 52,712,212	$ -	$ (1,634,257)	$ 51,077,955	$ 1,689,257

Annual debt service requirements to maturity for the bonds and tax note are as follows:

Year Ended August 31	Bonds and Tax Note		
	Principal	Interest	Total
2026	$ 1,520,000	$ 1,592,750	$ 3,112,750
2027	1,560,000	1,544,063	3,104,063
2028	1,610,000	1,494,025	3,104,025
2029	1,665,000	1,442,325	3,107,325
2030	1,715,000	1,387,000	3,102,000
2031-2035	9,500,000	6,014,338	15,514,338
2036-2040	7,740,000	4,460,600	12,200,600
2041-2045	8,915,000	3,281,850	12,196,850
2046-2050	10,460,000	1,736,150	12,196,150
2051	2,345,000	93,800	2,438,800
	$ 47,030,000	$ 23,046,900	$ 70,076,900

NOTE 11. RIGHT TO USE LEASE LIABILITIES

The District has entered into multiple lease agreements as lessee. The leases allow the right-to-use copiers, buses, and energy management equipment over the term of term of the lease. The District is required to make monthly payments on all leases at its incremental borrowing rate or the interest rate stated within the lease. The District evaluated its lease portfolio and did not identify any residual value guarantees or variable payments.

NOTE 11. RIGHT TO USE LEASE LIABILITIES (CONTINUED)

Changes in right to use lease liability

Right to use lease liability activity for the year ended August 31, 2025 was as follows:

Series	Interest Rate Payable	Liability At Commencement	Lease Term In Years	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Equipment	4.39%	$ 2,750,000	15	$ 861,685	$ -	$ (132,227)	$ 729,458	$ 180,170
Buses	3.60%	2,371,526	10	1,048,365	-	(248,355)	800,010	257,296
Copiers	3.60%	232,138	5	104,851	-	(45,572)	59,279	47,240
				$2,014,901	$ -	$ (426,154)	$ 1,588,747	$ 484,706

Annual principal and interest requirements to maturity for the right to use lease liability are as follows:

Year Ended August 31	Right to Use Lease Liability		
	Principal	Interest	Total
2026	$ 484,706	$ 61,878	$ 546,584
2027	460,223	43,022	503,245
2028	459,247	24,149	483,396
2029	184,571	6,081	190,652
	$1,588,747	$ 135,130	$1,723,877

NOTE 12. LONG-TERM OBLIGATIONS

Long-term obligation activities during the year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds and tax note	$ 52,712,212	$ -	$ (1,634,257)	$ 51,077,955	$ 1,689,257
Right to use leases	2,014,901	-	(426,154)	1,588,747	484,706
Compensated absences	2,255,766	123,743	-	2,379,509	294,619
	$ 56,982,879	$ 123,743	$ (2,060,411)	$ 55,046,211	$ 2,468,582

NOTE 13. 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	Capital Projects Fund	Special Revenue Fund	Total
Property taxes	$ 7,001,036	$ 2,719,982	$ -	$ -	$ 9,721,018
Food sales	-	-	-	567,439	567,439
Investment income	401,157	121,996	132,430	-	655,583
Penalties, interest and other tax related income	104,468	31,763	-	-	136,231
Co-curricular student activities	95,803	-	-	-	95,803
Other	157,666	-	141,511	321,427	620,604
Total	$ 7,760,130	$ 2,873,741	$ 273,941	$ 888,866	$ 11,796,678

NOTE 14. UNEARNED REVENUE

Unearned revenue at August 31, 2025 consisted of the following:

	General Fund	Special Revenue	Total
Scoreboard Contributions	$ 23,500	$ -	$ 23,500
Out of District Tuition Revenue	22,650	-	22,650
Elementary Instruction Revenue	3,447	-	3,447
Instructional Allotment Revenue	-	2,481	2,481
Executive Committee Revenue	-	1,018	1,018
Student Technology Fees	78,972	-	78,972
	$ 128,569	$ 3,499	$ 132,068

NOTE 15. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2025 consisted of the following:

	Due From	Due To
General Fund	$ 126,597	$ -
Special Revenue Fund	-	126,597
	$ 126,597	$ 126,597

There were no interfund transfers for the fiscal year ended August 31, 2025.

NOTE 16. LITIGATION AND CONTINGENCIES

The District is a party to various actual and pending legal actions none of which is believed by the administration to have a material effect on the financial condition of the District. Accordingly, no provision for potential losses or legal expenses has been recorded in the accompanying financial statements.

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

NOTE 17. PRIOR PERIOD ADJUSTMENTS

The District has recorded prior period adjustments to beginning fund balance and net position as listed below. To date, the District and its previous auditor have not reissued the financial statements and related independent auditor's reports in the fiscal 2024 annual financial report.

	Fund Balance
Fund balance on C-3 - September 1 (Beginning)	$ 12,554,353
Foundation Allotment Revenue, Student Days in August, 2024	1,166,005
District monies previously shown as custodial funds determined to be district funds	244,646
Prior Period Adjustments	1,410,651
Restated Fund Balance on C-3 at 8/31/2024	$ 13,965,004

	Net Position
Net Position on B-1 - September 1 (Beginning)	$ 10,864,446
GASB 101 Compensated Absences Adjustment	(2,255,766)
Foundation Allotment Revenue, Student Days in August, 2024	1,166,005
District monies previously shown as custodial funds determined to be district funds	244,646
Prior Period Adjustments	(845,115)
Restated Net Position on B-1 at 8/31/2024	$ 10,019,331

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT G-1

HAMSHIRE-FANNETT ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 8,139,909	$ 8,139,909	$ 7,760,130	$ (379,779)
5800	State Program Revenues	14,149,883	14,149,883	13,723,091	(426,792)
5900	Federal Program Revenues	177,000	177,000	314,498	137,498
5020	Total Revenues	22,466,792	22,466,792	21,797,719	(669,073)
	EXPENDITURES:				
	Current:				
0011	Instruction	10,705,752	10,648,440	10,492,907	155,533
0012	Instructional Resources and Media Services	223,721	214,326	201,595	12,731
0013	Curriculum and Instructional Staff Development	327,242	301,242	219,167	82,075
0021	Instructional Leadership	191,884	217,884	216,310	1,574
0023	School Leadership	1,202,154	1,196,117	1,156,159	39,958
0031	Guidance, Counseling, and Evaluation Services	486,699	486,499	466,731	19,768
0033	Health Services	165,301	165,301	159,974	5,327
0034	Student (Pupil) Transportation	1,226,000	1,126,000	1,049,002	76,998
0036	Extracurricular Activities	1,133,092	1,164,917	1,145,573	19,344
0041	General Administration	1,069,726	1,069,726	998,764	70,962
0051	Facilities Maintenance and Operations	5,241,646	4,876,805	4,793,734	83,071
0052	Security and Monitoring Services	181,100	180,600	152,117	28,483
0053	Data Processing Services	425,841	442,835	364,668	78,167
	Debt Service:				
0071	Principal on Long-Term Liabilities	427,083	427,083	471,045	(43,962)
0072	Interest on Long-Term Liabilities	75,654	75,654	80,290	(4,636)
	Capital Outlay:				
0081	Facilities Acquisition and Construction	250,000	585,150	550,148	35,002
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	53,960	53,960	25,082	28,878
0095	Payments to Juvenile Justice Alternative Ed. Prg.	18,860	18,860	18,860	-
0099	Other Intergovernmental Charges	120,000	120,000	91,201	28,799
6030	Total Expenditures	23,525,715	23,371,399	22,653,327	718,072
1200	Net Change in Fund Balances	(1,058,923)	(904,607)	(855,608)	48,999
0100	Fund Balance - Beginning, as Previously Reported	8,449,827	8,449,827	8,449,827	-
1300	Prior Period Adjustment	-	-	1,166,005	1,166,005
	as Restated and Adjusted	8,449,827		9,615,832	1,166,005
3000	Fund Balance - August 31 (Ending)	$ 7,390,904	$ 7,545,220	$ 8,760,224	$ 1,215,004

HAMSHIRE-FANNETT ISD

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR THE YEAR ENDED AUGUST 31, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Pension Liability (Asset)	0.00754347%	0.007563065%	0.007765874%
District's Proportionate Share of Net Pension Liability (Asset)	$ 4,607,867	$ 5,195,096	$ 4,610,400
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	7,808,913	9,488,255	8,674,064
Total	$ 12,416,780	$ 14,683,351	$ 13,284,464
District's Covered Payroll	$ 11,706,825	$ 11,627,945	$ 11,355,538
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	39.36%	44.68%	40.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.51%	73.15%	75.62%

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

FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015
0.008191153%	0.007705233%	0.007662965%	0.007268756%	0.006661284%	0.006724645%	0.0071596%
$ 2,085,997	$ 4,126,765	$ 3,983,449	$ 4,000,900	$ 2,129,920	$ 2,541,143	$ 2,530,823
4,059,422	8,552,674	7,220,753	8,134,239	4,982,291	6,193,414	5,824,549
$ 6,145,419	$ 12,679,439	$ 11,204,202	$ 12,135,139	$ 7,112,211	$ 8,734,557	$ 8,355,372
$ 11,435,222	$ 10,960,237	$ 9,515,585	$ 9,140,452	$ 8,865,603	$ 8,819,718	$ 8,487,350
18.24%	37.65%	41.86%	43.77%	24.02%	28.81%	29.82%
88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

HAMSHIRE-FANNETT ISD
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	2025	2024	2023
Contractually Required Contribution	$ 439,044	$ 425,101	$ 387,676
Contribution in Relation to the Contractually Required Contribution	(439,044)	(425,101)	(387,676)
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered Payroll	$ 12,193,629	$ 11,706,820	$ 11,627,945
Contributions as a Percentage of Covered Payroll	3.60%	3.63%	3.33%

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

2022	2021	2020	2019	2018	2017	2016
$ 358,946	$ 349,315	$ 317,851	$ 268,281	$ 245,258	$ 214,859	$ 213,660
(358,946)	(349,315)	(317,851)	(268,281)	(245,258)	(214,859)	(213,660)
$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 11,355,538	$ 11,435,222	$ 10,960,237	$ 9,515,585	$ 9,140,452	$ 8,865,603	$ 8,819,718
3.16%	3.05%	2.90%	2.82%	2.68%	2.42%	2.42%

HAMSHIRE-FANNETT ISD

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR THE YEAR ENDED AUGUST 31, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.011380554%	0.011515494%	0.011910525%
District's Proportionate Share of Net OPEB Liability (Asset)	$ 3,454,172	$ 2,549,335	$ 2,851,857
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	4,328,031	3,076,165	3,478,817
Total	$ 7,782,203	$ 5,625,500	$ 6,330,674
District's Covered Payroll	$ 11,706,825	$ 11,627,821	$ 11,355,807
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	29.51%	21.92%	25.11%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.70%	14.94%	11.52%

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

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

FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
0.0124339%	0.012266635%	0.01151773%	0.0121099%	0.011119807%
$ 4,796,311	$ 4,663,102	$ 5,449,876	$ 6,046,584	$ 4,835,587
6,425,988	6,266,091	7,237,679	7,873,641	7,111,740
$ 11,222,299	$ 10,929,193	$ 12,687,555	$ 13,920,225	$ 11,947,327
$ 11,435,235	$ 10,930,419	$ 9,515,585	$ 9,140,452	$ 8,865,603
41.94%	42.66%	57.24%	66.15%	54.54%
6.18%	4.99%	2.66%	1.57%	0.91%

HAMSHIRE-FANNETT ISD
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	2025	2024	2023
Contractually Required Contribution	$ 104,440	$ 103,375	$ 99,892
Contribution in Relation to the Contractually Required Contribution	(104,440)	(103,375)	(99,892)
Contribution Deficiency (Excess)	$ -	$ -	$ -
District's Covered Payroll	$ 12,193,629	$ 11,706,724	$ 11,627,821
Contributions as a Percentage of Covered Payroll	0.86%	0.88%	0.86%

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

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

2022	2021	2020	2019	2018
$ 97,826	$ 97,137	$ 93,235	$ 81,743	$ 83,530
(97,826)	(97,137)	(93,235)	(81,743)	(83,530)
$ -	$ -	$ -	$ -	$ -
$ 11,355,807	$ 11,435,235	$ 10,930,419	$ 9,515,585	$ 9,140,452
0.86%	0.85%	0.85%	0.86%	0.91%

REQUIRED TEA SCHEDULES

HAMSHIRE-FANNETT ISD
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2025

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2016	and prior years	Various	Various	$ Various
2017		1.170000	0.199400	666,149,922
2018		1.170000	0.191300	715,170,571
2019		1.170000	0.191300	694,445,271
2020		1.068350	0.164000	802,508,341
2021		1.054700	0.186100	710,859,979
2022		0.960300	0.217700	851,798,276
2023		0.942900	0.290300	967,000,786
2024		0.788500	0.292410	934,248,288
2025	(School year under audit)	1.049190	0.293990	1,020,887,094
1000	TOTALS			
8000	Total Taxes Refunded Under Section 26.1115, Tax Code			

(10) Beginning Balance 9/1/2024	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2025	(99) Taxes Refunded Under Section 26.1115c
$ 273,720	$	$ 4,032	$ 727	$ (50,289)	$ 218,672	
45,349		1,821	396		43,132	
58,351		4,369	920		53,062	
67,799		3,073	646		64,080	
77,472		6,208	1,229		70,035	
77,921		6,574	1,503	1,500	71,344	
122,058		13,220	4,945	(1,087)	102,806	
167,378		18,414	6,449	(13,753)	128,762	
240,737		6,982	2,935	(58,081)	172,739	
	10,124,050	6,936,343	2,700,232	(119,629)	367,846	
$ 1,130,785	$ 10,124,050	$ 7,001,036	$ 2,719,982	$ (241,339)	$ 1,292,478	
						$ 140,731

EXHIBIT J-2

HAMSHIRE-FANNETT ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 560,000	$ 560,000	$ 567,439	$ 7,439
5800	State Program Revenues	18,000	103,000	21,453	(81,547)
5900	Federal Program Revenues	603,000	611,423	610,248	(1,175)
5020	Total Revenues	1,181,000	1,274,423	1,199,140	(75,283)
	EXPENDITURES:				
	Current:				
0035	Food Services	1,179,924	1,483,203	1,382,202	101,001
6030	Total Expenditures	1,179,924	1,483,203	1,382,202	101,001
1200	Net Change in Fund Balances	1,076	(208,780)	(183,062)	25,718
0100	Fund Balance - September 1 (Beginning)	509,163	509,163	509,163	-
3000	Fund Balance - August 31 (Ending)	$ 510,239	$ 300,383	$ 326,101	$ 25,718

HAMSHIRE-FANNETT ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 2,892,186	$ 2,892,186	$ 2,873,741	$ (18,445)
5800	State Program Revenues	316,291	316,291	469,418	153,127
5020	Total Revenues	3,208,477	3,208,477	3,343,159	134,682
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Liabilities	1,465,000	1,465,000	1,465,000	-
0072	Interest on Long-Term Liabilities	1,637,582	1,637,582	1,631,021	6,561
0073	Bond Issuance Cost and Fees	5,100	5,100	3,450	1,650
6030	Total Expenditures	3,107,682	3,107,682	3,099,471	8,211
1200	Net Change in Fund Balances	100,795	100,795	243,688	142,893
0100	Fund Balance - September 1 (Beginning)	1,431,306	1,431,306	1,431,306	-
3000	Fund Balance - August 31 (Ending)	$ 1,532,101	$ 1,532,101	$ 1,674,994	$ 142,893

HAMSHIRE-FANNETT ISD

STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES

FOR THE YEAR ENDED AUGUST 31, 2025

Section A: Compensatory Education Programs

AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?	Yes
AP3	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	1,007,264
AP4	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30)	925,626

Section B: Bilingual Education Programs

AP5	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?	Yes
AP6	Does the district have written policies and procedures for its bilingual education program?	Yes
AP7	Total state allotment funds received for bilingual education programs during the district's fiscal year.	68,757
AP8	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PIC 25)	59,850

FEDERAL AWARDS SECTION

Wathen, DeShong & Juncker, L.L.P.
CPAs & BUSINESS ADVISORS

January 20, 2026

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

Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamshire-Fannett Independent School District (the District), as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 20, 2026.

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

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

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

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

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

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

Wathen, DeShong & Juncker, L.L.P.
CPAs & BUSINESS ADVISORS

January 20, 2026

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

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

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

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

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

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

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

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

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

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

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

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

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

Wathen, DeShong & Juncker, L.L.P.

WATHEN, DeSHONG & JUNCKER, L.L.P.
Certified Public Accountants

HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2025

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness identified? _____ yes ✓ no
- Significant deficiency identified? _____ yes ✓ none reported

Noncompliance material to financial statements noted? _____ yes ✓ no

Federal Awards

Internal control over major programs:

- Material weakness identified? _____ yes ✓ no
- Significant deficiency identified? _____ yes ✓ none reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR)200.516(a)? _____ yes ✓ no

Identification of major programs:

Federal Assistance Listing Numbers	Name of Federal Program or Cluster
	Child Nutrition Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low-risk auditee? ✓ yes _____ no

HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2025

Section II – Financial Statement Findings

-- NONE NOTED --

Section III – Federal Award Findings

-- NONE NOTED --

HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

STATUS OF PRIOR YEAR'S FINDINGS
YEAR ENDED AUGUST 31, 2025

-- NONE NOTED --

HAMSHIRE-FANNETT ISD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2025

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal Assistance Listing No.	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency			
*IDEA - Part B, Title VI, Formula	84.027A	256600011239146000	$ 481,246
*IDEA - Part B, Title VI, Preschool	84.173A	256610011239146000	16,981
Total Special Education Cluster (IDEA)			498,227
ESEA, Title II, Part A, Supporting Effective Instruction	84.367A	25694501123914	51,977
Title IV, Part A, Subpart 1	84.424A	25680101123914	10,342
ESEA, Title I, Part A - Improving Basic Programs	84.010A	25610101123914	223,025
Total Passed Through Texas Education Agency			783,571
TOTAL U.S. DEPARTMENT OF EDUCATION			783,571
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the Texas Department of Agriculture			
*School Breakfast Program	10.553	71402501	100,975
*National School Lunch Program	10.555	71302401	379,722
*Supply Chain Assistance	10.555	NT4XL1YGLGC5	8,423
Total Assistance Listing Number 10.555			388,145
Total Child Nutrition Cluster			489,120
*Commodity Supplemental Program	10.565	123-914	64,825
Total Food Distribution Cluster			64,825
State Administrative Expense	10.560	123-914	10,191
Local Foods for Schools Cooperative Agreement	10.185	123-914	46,112
Total Passed Through the Texas Department of Agriculture			610,248
TOTAL U.S. DEPARTMENT OF AGRICULTURE			610,248
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,393,819

*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2025

1. The accompanying Schedule Of Expenditures Of Federal Awards (Schedule) includes the federal grant activity of Hamshire-Fannett Independent School District (the District) under programs of the Federal government for the year ended August 31, 2025. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

3. The District utilizes the fund types specified in the Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

4. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the Special Revenue Fund, a component of the Governmental Fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

   The modified accrual basis of accounting is used for the Governmental Fund Types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

   Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

5. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date or as specified in a program regulation, in accordance with provisions in Office of Management and Budget (OMB) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* – Section 200.343 Closeout.

6. Hamshire-Fannett Independent School District does not record indirect costs for any of its Federal Programs.

7. A reconciliation of Federal Revenue reported on Exhibit C-3 to Federal Revenue reported on the Schedule of Expenditures of Federal Awards (Exhibit K-1) follows:

Federal Revenue Reported on Exhibit K-1	$ 1,393,819
SHARS Medicaid Revenue	280,255
Impact Aid	4,701
Qualified School Construction Bonds (QSCB)	29,542
Federal Revenue Reported on Exhibit C-3	$ 1,708,317

SCHOOLS FIRST QUESTIONNAIRE

Hamshire-Fannett ISD

Fiscal Year 2025

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If payments were not made or warrant hold not cleared within 30 days of when due, then payments are NOT timely.)	Yes
SF4	Was the school district issued a warrant hold? (Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, answer is still YES.)	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds and/or substantial doubt about the district's ability to continue as a going concern?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school district's administration and school board members discuss any changes and/or impact to local, state, and federal funding at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	0