Ratings: Moody's: "Aaa"
Fitch: "AAA"
(See "RATINGS" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

**PRELIMINARY OFFICIAL STATEMENT**
**Dated: January 14, 2021**

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

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

# $50,000,000*
# PROSPER INDEPENDENT SCHOOL DISTRICT
## (A political subdivision of the State of Texas located in Collin and Denton Counties, Texas)
## Unlimited Tax School Building Bonds, Series 2021

**Dated Date: February 1, 2021** **Due: February 15, as shown on the inside cover page**

The Prosper Independent School District Unlimited Tax School Building Bonds, Series 2021 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the Prosper Independent School District (the "District") on May 4, 2019 and the order adopted by the Board of Trustees of the District (the "Board") on December 14, 2020 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate, together with the Bond Order, are collectively referred to herein as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on February 15, 2022 and each August 15 and February 15 thereafter, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is U.S. Bank National Association, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date, as defined herein.

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

Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation, acquisition and equipment of school buildings in the District, including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2032 are subject to redemption at the option of the District in whole or in part on February 15, 2031 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS – Mandatory Sinking Fund Redemption").

**MATURITY SCHEDULE**
(On Inside Cover)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchasers (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about February 17, 2021.*

**PIPER SANDLER & CO.**

**FHN FINANCIAL CAPITAL MARKETS** **RBC CAPITAL MARKETS**

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**Preliminary, subject to change.*

**$50,000,000***
**PROSPER INDEPENDENT SCHOOL DISTRICT**
**(A political subdivision of the State of Texas located in Collin and Denton Counties, Texas)**
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**

**MATURITY SCHEDULE**
Base CUSIP No.: 743600[(1)]

| Maturity Date 2/15 | Principal Amount* | Interest Rate | Initial Yield | CUSIP No. Suffix[(1)] |
|---|---|---|---|---|
| 2024 | $85,000 | | | |
| 2025 | 875,000 | | | |
| 2026 | 915,000 | | | |
| 2027 | 955,000 | | | |
| 2028 | 1,000,000 | | | |
| 2029 | 1,040,000 | | | |
| 2030 | 1,075,000 | | | |
| 2031 | 1,110,000 | | | |
| 2032 | 1,150,000 | | | |
| 2033 | 1,185,000 | | | |
| 2034 | 1,225,000 | | | |
| 2035 | 1,265,000 | | | |
| 2036 | 1,305,000 | | | |
| 2037 | 1,350,000 | | | |
| 2038 | 1,395,000 | | | |
| 2039 | 1,440,000 | | | |
| 2040 | 1,490,000 | | | |
| 2041 | 1,540,000 | | | |
| 2042 | 1,590,000 | | | |
| 2043 | 1,640,000 | | | |
| 2044 | 2,135,000 | | | |
| 2045 | 2,205,000 | | | |
| 2046 | 2,280,000 | | | |
| 2047 | 2,665,000 | | | |
| 2048 | 4,065,000 | | | |
| 2049 | 4,200,000 | | | |
| 2050 | 4,340,000 | | | |
| 2051 | 4,480,000 | | | |

(Interest to accrue from the Dated Date)

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**Preliminary, subject to change.*

*[(1)] CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.*

## PROSPER INDEPENDENT SCHOOL DISTRICT



### APPOINTED OFFICIALS

| Name | Position | Length of Education Service | Length of Service with District |
|---|---|---|---|
| Dr. Holly Ferguson | Superintendent | 20 Years | 12 Years |
| Dr. Greg Bradley | Assistant Superintendent of Business & Operations | 18 Years | 7 Years |
| Annette Folmar | Chief Financial Officer | 27 Years | 1 ½ Years |
| Michele Seese | Director of Business Services | 16 Years | 5 Months |

### CONSULTANTS AND ADVISORS

| | |
|---|---|
| McCall, Parkhurst & Horton L.L.P., Dallas, Texas | Bond Counsel |
| SAMCO Capital Markets, Inc., Plano, Texas | Financial Advisor |
| Morgan, Davis, & Company, P.C., Greenville, Texas | Certified Public Accountants |

For additional information, contact:

Annette Folmar
Chief Financial Officer
Prosper ISD
605 East Seventh Street
Prosper, Texas 75078
(469) 219-2000

Doug Whitt / Brian Grubbs / Robert White
SAMCO Capital Markets, Inc.
5800 Granite Parkway, Suite 210
Plano, Texas 75024
(214) 765-1469
(214) 279-8683 (Fax)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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

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

## TABLE OF CONTENTS

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

**The District** The Prosper Independent School District (the "District") is a political subdivision of the State of Texas located in Collin and Denton Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

**The Bonds** The Bonds are being issued in the principal amount of $50,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 4, 2019 and the order adopted by the Board on December 14, 2020 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation, acquisition and equipment of school buildings in the District, including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

**Paying Agent/Registrar** The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

**Security** The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

**Redemption** The Bonds maturing on or after February 15, 2032 are subject to redemption at the option of the District in whole or in part on February 15, 2031 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS – Mandatory Sinking Fund Redemption").

**Permanent School Fund Guarantee** The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")

**Ratings** The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Fitch Ratings, Inc. ("Fitch") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. The District's unenhanced, underlying ratings, including the Bonds, are "Aa3" by Moody's and "AA-" by Fitch. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATINGS" herein.)

**Tax Matters** In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C - "Form of Legal Opinion of Bond Counsel.")

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

**Legal Opinion** Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.

**Delivery** When issued, anticipated to be on or about February 17, 2021.

## INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Prosper Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Collin and Denton Counties, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2021 (the "Bonds") identified on page ii hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined below) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Prosper Independent School District, 605 E. Seventh Street, Prosper, Texas 75078 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

## INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor.

The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

On September 24, 2020, TEA issued updated public planning health guidance related to instructional and operational flexibilities in planning for the 2020-2021 school year to address on campus and virtual instruction, non-UIL extracurricular sports and activities, and other activities that cannot be accomplished virtually. Within the guidance, TEA instructs schools to provide parental and public notices of the school district's plan for on-campus instruction (posted one week prior to the commencement of in person education) in order to mitigate COVID-19 within their facilities and confirms the attendance requirements for promotion (which may be completed by virtual education). The guidance further details screening mechanisms, identification of symptoms, and procedures for confirmed, suspected, and exposed cases. Certain actions, such as notification to health department officials and closure of high-traffic areas, will be required in the instance of confirmed cases. Schools are highly encouraged to engage in mitigation practices promoting health and hygiene consistent with CDC guidelines (including social distancing, facial coverings, frequent disinfecting of all areas, limiting visitations, etc.) to avoid unnecessary exposure to others to prevent the spread of COVID-19.

The TEA recently advised districts that for the 2020-2021 school year district funding will return to being based on ADA calculations requiring attendance to be taken. However, the TEA is crafting an approach for determining ADA that provides districts with several options for determining daily attendance. These include, remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts will be provided an ADA grace period for the first three six weeks of Foundation School Program reporting. Specifically, if ADA counts during those three six weeks are more than 1% less than the first three six weeks of the 2019- 2020 school year, the first three six weeks will be excluded from 2020-21 ADA calculations, subject to some restrictions. In addition to this grace period, districts will also have an attendance grace period for remote asynchronous instruction plan approval, which continues through the end of the third six weeks. Additional information regarding the plans for the 2020-2021 school year may be obtained from the TEA. Following the initial grace period, the return to funding based on ADA calculations requiring attendance to be taken during the Pandemic may have a negative impact on revenues available to the District for operations and maintenance if students do not take part in the instruction options made available by the District. The District is providing students with the choice between in-person learning and virtual learning for the 2020-2021 school year.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. In addition, the federal government has taken, and continues to consider additional, action without precedent in effort to counteract or mitigate the Pandemic's economic impact. These conditions and related responses and reactions may reduce or negatively affect property values within the District. See "AD VALOREM TAX PROCEDURES". The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Additionally, state funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

The financial and operating data contained in this Official Statement are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the District.

## THE BONDS

### Authorization and Purpose

The Bonds are being issued in the principal amount of $50,000,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State, including particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 4, 2019 (the "Election") and the Bond Order adopted on December 14, 2020 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used for the purpose of (i) construction, renovation, acquisition and equipment of school buildings in the District, including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) pay the costs of issuing the Bonds.

### General Description

The Bonds will be dated February 1, 2021 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2022 and on each August 15 and February 15 thereafter until stated maturity or prior redemption.

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

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

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

### Optional Redemption

The Bonds maturing on or after February 15, 2032, are subject to redemption, at the option of the District, in whole or in part, in principal amounts of $5,000 or integral multiples thereof, on February 15, 2031, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

### Mandatory Sinking Fund Redemption

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

### Notice of Redemption

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a notice of conditional redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds have not been redeemed. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE, HAVING BEEN MADE, AND ANY PRECONDITIONS STATED IN THE NOTICE OF REDEMPTION HAVING BEEN SATISFIED INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

**DTC Notices**

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

**Security**

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

**Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education of the TEA for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

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

**Legality**

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

**Payment Record**

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

**Amendments**

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

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

**Defeasance**

The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. The Pricing Officer may restrict such eligible securities and obligations as deemed appropriate. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

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

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds will be applied approximately as follows:

| | |
|---|---|
| **Sources** | |
| Par Amount of Bonds | $ |
| Original Offering Premium | |
| Accrued Interest | |
| **Total Sources of Funds** | $ |
| **Uses** | |
| Deposit to Construction Fund | $ |
| Costs of Issuance | |
| Underwriters' Discount | |
| Deposit to Interest and Sinking Fund | |
| **Total Uses of Funds** | $ |

## REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any State court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by State courts. In general, State courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. State courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, including the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

**BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, nor the Underwriters take any responsibility for the accuracy thereof.

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

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

## REGISTRATION, TRANSFER AND EXCHANGE

**Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

**Successor Paying Agent/Registrar**

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

**Initial Registration**

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

**Future Registration**

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

**Record Date For Interest Payment**

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

**Limitation on Transfer of Bonds**

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

**Replacement Bonds**

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

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the State Permanent School Fund and the Guarantee Program for school district bonds has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Underwriters.*

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

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

### History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2020, the General Land Office (the "GLO") managed approximately 15% of the PSF, as reflected in the fund balance of the PSF at that date.

The Texas Constitution describes the PSF as "permanent." Prior to the approval by Texas voters of the Total Return Constitutional Amendment, only the income produced by the PSF was to be used to complement taxes in financing public education.

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

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Commissioner. On approval by the Commissioner, bonds properly issued by a charter district participating in the Program are fully guaranteed by the corpus of the PSF. As described below, the implementation of the Charter District Bond Guarantee Program was deferred pending receipt of guidance from the Internal Revenue Service (the "IRS") which was received in September 2013, and the establishment of regulations to govern the program, which regulations became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2020 SBOE distributions to the ASF amounted to an estimated $347 per student and the total amount distributed to the ASF by the SBOE and SLB was $1,701.7 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2020, when filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the federal Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended

August 31, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

**2019 Texas Legislative Session**

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the "86th Session"), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that changed the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members are appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from $300 million to $600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

Other legislation enacted during the 86th Session provides for the winding up of the affairs of an open-enrollment charter school that ceases operations, including as a result of the revocation or other termination of its charter. In particular, among other provisions, the legislation addresses the disposition of real and personal property of a discontinued charter school and provides under certain circumstances for reimbursement to be made to the State, if the disposed property was acquired with State funds; authorizes the Commissioner to adopt a rule to govern related party transactions by charter schools; and creates a "charter school liquidation fund" for the management of any reclaimed State funds, including, in addition to other potential uses, for the use of deposit of such reclaimed funds to the Charter District Reserve Fund.

No assessment has been made by the TEA or PSF staff as to the potential financial impact of any legislation enacted during the 86th Session, including the increase in the permissible amount that may be transferred from the PSF to the ASF, as approved by State voters at the November 5, 2019 referendum.

**The Total Return Constitutional Amendment**

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

See "2011 and 2019 Constitutional Amendments" below for a discussion of the historic and current Distribution Rates, and a description of amendments made to the Texas Constitution on November 8, 2011 and November 5, 2019 that may affect Distribution Rate decisions.

Since the enactment of a prior amendment to the Texas Constitution in 1964, the investment of the Fund has been managed with the dual objectives of producing current income for transfer to the ASF and growing the Fund for the benefit of future generations. As a result of this prior constitutional framework, prior to the adoption of the 2004 asset allocation policy the investment of the Fund historically included a significant amount of fixed income investments and dividend-yielding equity investments, to produce income for transfer to the ASF.

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in July 2020. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. Periodic changes in the asset allocation policies have been made with the objective of providing diversity to Fund assets, and have included an alternative asset allocation in addition to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, approved in July 2020, is as follows: (i) an equity allocation of 37% (consisting of U.S. large cap equities targeted at 14%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 6%), (ii) a fixed income allocation of 25% (consisting of a 12% allocation for core bonds, a 7% allocation for emerging market debt in local currency, a 3% allocation for high yield bonds, and a 3% allocation for U.S. Treasury bonds), and (iii) an alternative asset allocation of 38% (consisting of a private equity allocation of 15%, a real estate allocation of 11%, an absolute return allocation of 7%, a 1% allocation for private equity and real estate for emerging managers, and a real return allocation of 4%). As compared to the 2016 asset allocation, the 2020 asset allocation increased U.S. large cap equities and small/mid-cap U.S. equities by a combined 2%, added high yield bonds and U.S Treasury bonds to the fixed income allocation in the amounts noted above, increased combined private equity and real estate from 23% to 27%, eliminated the risk parity allocation, which was previously a 7% allocation within the global risk control strategy category of alternative assets, and reduced the absolute return allocation within the global risk control strategy category of alternative assets to 7% from 10%.

In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income, and that asset allocation is

expected to be fully implemented in the first calendar quarter of fiscal year 2022. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 10%, 5% and 25%, respectively. At August 31, 2020, the market value of the liquidity account was $4,050,631,451, of which 0.00% was equity investments, 39.43% was fixed income investments and 60.57% was cash.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2020, the Fund's financial assets portfolio was invested as follows: 37.67% in public market equity investments; 14.39% in fixed income investments; 9.83% in absolute return assets; 13.31% in private equity assets; 8.66% in real estate assets; 3.24% in risk parity assets; 5.72% in real return assets; 6.83% in emerging market debt; and 0.35% in unallocated cash, exclusive of the liquidity account.

Following on previous decisions to create strategic relationships with investment managers in certain asset classes, in September 2015 and January 2016, the SBOE approved the implementation of direct investment programs in private equity and absolute return assets, respectively, which has continued to reduce administrative costs within those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; development of hostilities in and among nations; cybersecurity issues that affect the securities markets, changes in international trade policies, economic activity and investments, in general, application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

**Management and Administration of the Fund**

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets. In investing the Fund, the SBOE is charged with exercising the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital. The SBOE has adopted a "Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund," which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

The Total Return Constitutional Amendment provides that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, at the request of the SBOE, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), that the Total Return Constitutional Amendment requires that SBOE expenditures for managing or administering PSF investments, including payments to external investment managers, be paid from appropriations made by the Legislature, but that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 and 2019 Constitutional Amendments" below.

The SBOE contracts with its securities custodial agent to measure the performance of the total return of the Fund's financial assets. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. The SBOE also contracts with financial institutions for custodial and securities lending services. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has implemented an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund.

As noted above, the Texas Constitution and applicable statutes make the SBOE responsible for investment of the PSF's financial assets. By law, the Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is also hired by and reports to the Commissioner. Moreover, although the Fund's Executive Administrator and his staff implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA's General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments.

**Capacity Limits for the Guarantee Program**

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited in two ways: by State law (the "State Capacity Limit") and by regulations and a notice issued by the IRS (the "IRS Limit"). Prior to May 20, 2003, the State Capacity Limit was equal to two times the lower of cost or fair market value of the Fund's assets, exclusive of real estate. During the 78th Regular Session of the Legislature in 2003, legislation was enacted that increased the State Capacity Limit by 25%, to two and one half times the lower of cost or fair market value of the Fund's assets as estimated by the SBOE and certified by the State Auditor, and eliminated the real estate exclusion from the calculation. Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. During the 2007 Texas Legislature, Senate Bill 389 ("SB 389") was enacted providing for additional increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provides that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS will issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provides that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

On September 16, 2013, the IRS published proposed regulations (the "Proposed IRS Regulations") that, among other things, would enact the IRS Notice. The preamble to the Proposed IRS Regulations provides that issuers may elect to apply the Proposed IRS Regulations, in whole or in part, to bonds sold on or after September 16, 2013, and before the date that final regulations become effective.

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was $23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately $117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules"), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds" below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from $123,509,204,770 on August 31, 2019 to $128,247,002,583 on August 31, 2020 (but at such date the IRS Limit was lower, $117,318,653,038, so it is the currently effective capacity limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective September 1, 2009, the Act provides that the SBOE may annually establish a percentage of the cost value of the Fund to be reserved from use in guaranteeing bonds. The capacity of the Guarantee Program in excess of any reserved portion is referred to herein as the "Capacity Reserve." The SDBGP Rules provide for a minimum Capacity Reserve for the overall Guarantee Program of no less than 5%, and provide that the amount of the Capacity Reserve may be increased by a majority vote of the SBOE. The CDBGP Rules provide for an additional 5% reserve of CDBGP capacity. The Commissioner is authorized to change the Capacity Reserve, which decision must be ratified or rejected by the SBOE at its next meeting following any change made by the Commissioner. The current Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including changes in the value of the Fund due to changes in securities markets, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or an increase in the calculation base of the Fund for purposes of making transfers to the ASF. It is anticipated that the issuance of the IRS Notice and the Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

The Act requires that the Commissioner prepare, and the SBOE approve, an annual report on the status of the Guarantee Program (the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other State financial statements.

**The School District Bond Guarantee Program**

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

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

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

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

Generally, the SDBGP Rules limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.65, and are available at http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.65.

**The Charter District Bond Guarantee Program**

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). The CDBGP Rules are codified at 19 TAC section 33.67, and are available at http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.67.

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At January 4, 2021, there were 187 active open-enrollment charter schools in the State and there were 838 charter school campuses active under such charters (though as of such date, three of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Commissioner determines that the charter district is acting in bad faith under the program, the Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the

Charter District Bond Guarantee Program, the Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

**2017 Legislative Changes to the Charter District Bond Guarantee Program**

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2020, the amount of outstanding bond guarantees represented 77.00% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 6.15% in March 2020. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

SB 1480 provides that the implementation of the new method of calculating the CDBGP Capacity will begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022). However, for the intervening four fiscal years, beginning with fiscal year 2018, SB 1480 provides that the SBOE may establish a CDBGP Capacity that increases the amount of charter district bonds that may be guaranteed by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017. However, SB 1480 provides that in making its annual determination of the magnitude of an increase for any year, the SBOE may establish a lower (or no) increase if the SBOE determines that an increase in the CDBGP Capacity would likely result in a negative impact on the bond ratings for the Bond Guarantee Program (see "Ratings of Bonds Guaranteed Under the Guarantee Program") or if one or more charter districts default on payment of principal or interest on a guaranteed bond, resulting in a negative impact on the bond ratings of the Bond Guarantee Program. The provisions of SB 1480 that provide for discretionary, incremental increases in the CDBGP expire September 1, 2022. If the SBOE makes a determination for any year based upon the potential ratings impact on the Bond Guarantee Program and modifies the increase that would otherwise be implemented under SB 1480 for that year, the SBOE may also make appropriate adjustments to the schedule for subsequent years to reflect the modification, provided that the CDBGP Capacity for any year may not exceed the limit provided in the schedule set forth in SB 1480. As a result of SB 1480, the amount of charter district bonds eligible for guarantee in fiscal years 2018, 2019 and 2020 increased by the full 20% increase permitted by SB 1480, which increased the relative capacity of the Charter District Bond Guarantee Program to the School District Bond Guarantee Program for those fiscal years.

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at the Winter 2018 meeting the SBOE determined not to implement a previously approved multiplier increase to 3.75 times market value, opting to increase the multiplier to 3.50 times effective in late March 2018.

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provides that the Commissioner, in making a determination as to whether to approve a guarantee for a charter district, may consider any additional reasonable factor that the Commissioner determines to be necessary to protect the Bond Guarantee Program or minimize risk to the PSF, including: (1) whether the charter district had an average daily attendance of more than 75% of its student capacity for each of the preceding three school years, or for each school year of operation if the charter district has not been in operation for the preceding three school years; (2) the performance of the charter district under certain performance criteria set forth in Education Code Sections 39.053 and 39.054; and (3) any other indicator of performance that could affect the charter district's financial performance. Also, SB 1480 provides that the Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Commissioner may decline to approve the application if the Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. As of October 31, 2020, the Charter District Reserve Fund contained $43,875,326, which represented approximately 1.69% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it is held and invested as a non-commingled fund under the administration of the PSF staff.

**Charter District Risk Factors**

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

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

The maintenance of a State-granted charter is dependent upon on-going compliance with State law and TEA regulations, and TEA monitors compliance with applicable standards. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school.

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

**Infectious Disease Outbreak**

A respiratory disease named "2019 novel coronavirus" ("COVID-19") has recently spread to many parts of the world, including Texas and elsewhere in the U.S. On March 13, 2020, the U.S. president declared a national emergency and the Governor of Texas (the "Governor") declared COVID-19 as a statewide public health disaster (the "COVID-19 Declarations"). Subsequent actions by the Governor imposed temporary restrictions on certain businesses and ordered all schools in the State to temporarily close. This situation is rapidly developing; for additional information on these events in the State, reference is made to the website of the Governor, https://gov.texas.gov/, and, with respect to public school events, the website of TEA, https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance.

*Potential Impact of COVID-19 in the State and Investment Markets*

The anticipated continued spread of COVID-19, and measures taken to prevent or reduce its spread, have adversely impacted State, national and global economic activities and, accordingly, materially adversely impacted the financial condition and performance of the State. The continued spread of COVID-19, and measures taken to prevent or reduce its spread, may also adversely affect the tax bases of school districts in the State, including districts that have bonds that are guaranteed under the Guarantee Program.

As noted herein, the PSF investments are in diversified investment portfolios and it is expected that the Fund will reflect the general performance returns of the markets in which it is invested. Stock values, crude oil prices and other investment categories in the U.S. and globally in which the Fund is invested or which provide income to the Fund, have seen significant volatility attributed to COVID-19 concerns, which could adversely affect the Fund's values.

*TEA Continuity of Operations*

Since 2007, Texas Labor Code Section 412.054 has required each State agency to develop and submit to the State Office of Risk Management an agency-level continuity of operations plan to keep the agency operational in case of disruptions to production, finance, administration or other essential operations. Such plans may be implemented during the occurrence or imminent threat of events such as extreme weather, natural disasters and infectious disease outbreaks. TEA has adopted a continuity of operations plan, which provides for, among other measures and conditions, steps to be taken to ensure performance of its essential missions and functions under such threats and conditions in the event of a pandemic event. TEA annually conducts risk assessments and risk impact analysis that include stress testing and availability analysis of system resources, including systems that enable TEA employees to work remotely, as is occurring as a result of the COVID-19 declarations. As noted above, under "The School District Bond Guarantee Program," the Guarantee Program is in significant part an intercept program whereby State funding for school districts and charter districts reimburse the Fund for any guarantee payment from the Fund for a non-performing district. In addition to the continuity of operations plan provisions noted above, the Fund maintains cash positions in its portfolios that are intended to provide liquidity to the Fund for payments under the Guarantee Program pending reimbursement of the Fund by the Comptroller. Fund management is of the view that its liquidity position, which changes from time to time in light of then current circumstances, is sufficient for payment of claims made on the Guarantee Program.

*Impact of COVID-19 on School Districts and Charter Districts*

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. Most school district bonds in the State are issued as fixed rate debt, with semiannual payments in February and August. Taxes levied by school districts for payment of bonds are generally collected by the end of January in each year. Consequently, scheduled bond payments for school districts for the 2020 calendar year have generally not been affected by COVID-19. TEA has issued guidance to school districts and charter districts regarding a variety of matters pertaining to school operations in light of the on-going COVID-19 pandemic. Certain aspects of TEA's guidance include waivers pertaining to State funding provisions, local financial matters and general operations. TEA has implemented "hold harmless" funding for school districts and charter districts for the last 12 weeks of school year 2019–2020 and during the first 12 weeks of the 2020–21 school year. Additional information in this regard is available at the TEA website at https://tea.texas.gov/texas-schools/health-safety-discipline/covid/coronavirus-covid-19-support-and-guidance.

**Ratings of Bonds Guaranteed Under the Guarantee Program**

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "RATING" herein.

**Valuation of the PSF and Guaranteed Bonds**

**Permanent School Fund Valuations**

| Fiscal Year Ended 8/31 | Book Value[1] | Market Value[1] |
|---|---|---|
| 2016 | $30,128,037,903 | $37,279,799,335 |
| 2017 | 31,870,581,428 | 41,438,672,573 |
| 2018 | 33,860,358,647 | 44,074,197,940 |
| 2019 | 35,288,344,219 | 46,464,447,981 |
| 2020[2] | 36,642,000,738 | 46,764,059,745 |

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

*(2) At August 31, 2020, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately $13.4 million, $200.4 million, $4,255.4 million, $7.5 million, and $333.8 million, respectively, and market values of approximately $2,115.4 million, $628.1 million, $3,824.2 million, $0.9 million, and $333.8 million, respectively. At October 31, 2020, the PSF had a book value of $37,040,181,304 and a market value of $46,902,584,511. October 31, 2020 values are based on unaudited data, which is subject to adjustment.*

**Permanent School Fund Guaranteed Bonds**

| At 8/31 | Principal Amount[1] |
|---|---|
| 2016 | $68,303,328,445 |
| 2017 | 74,266,090,023 |
| 2018 | 79,080,901,069 |
| 2019 | 84,397,900,203 |
| 2020 | 90,336,680,245[2] |

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

*(2) As of August 31, 2020 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $139,992,934,246, of which $49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were $90,336,680,245 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of $117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of October 31, 2020, 94.88% of Program capacity was available to the School District Bond Guarantee Program and 5.12% was available to the Charter District Bond Guarantee Program.*

**Permanent School Fund Guaranteed Bonds by Category**[1]

| | School District Bonds | | Charter District Bonds | | Totals | |
|---|---|---|---|---|---|---|
| Fiscal Year Ended 8/31 | No. of Issues | Principal Amount | No. of Issues | Principal Amount | No. of Issues | Principal Amount |
| 2016 | 3,244 | $67,342,303,445 | 35 | $961,025,000 | 3,279 | $68,303,328,445 |
| 2017 | 3,253 | 72,884,480,023 | 40 | 1,381,610,000 | 3,293 | 74,266,090,023 |
| 2018 | 3,249 | 77,647,966,069 | 44 | 1,432,935,000 | 3,293 | 79,080,901,069 |
| 2019 | 3,297 | 82,537,755,203 | 49 | 1,860,145,000 | 3,346 | 84,397,900,203 |
| 2020[2] | 3,296 | 87,800,478,245 | 64 | 2,536,202,000 | 3,360 | 90,336,680,245 |

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

*(2) At October 31, 2020 (based on unaudited data, which is subject to adjustment), there were $91,697,104,332 of bonds guaranteed under the Guarantee Program, representing 3,340 school district issues, aggregating $89,106,892,332 in principal amount and 65 charter district issues, aggregating $2,590,212,000 in principal amount. At October 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was $5,702,716,863 (based on unaudited data, which is subject to adjustment).*

**Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020**

The following discussion is derived from the Annual Report for the year ended August 31, 2020, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the liquidity account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was $46.7 billion, an increase of $0.2 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one year period ending August 31, 2020, net of fees, was 2.35% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were -12.27%, 2.49%, and 5.15%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2020, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, U.S. Treasury Securities, real return commodities, and emerging market debt.

As of August 31, 2020, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $5.7 billion and capital commitments to private equity limited partnerships for a total of $7.5 billion. Unfunded commitments at August 31, 2020, totaled $2.0 billion in real estate investments and $2.4 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2020, the remaining commitments totaled approximately $2.73 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 22.37%, 3.44%, 8.80%, and 15.84%, respectively, during the fiscal year ended August 31, 2020. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 5.50% during the fiscal year and absolute return investments yielded a return of 4.43%. The PSF(SBOE) real estate and private equity investments returned 2.93% and 4.63%, respectively. Risk parity assets produced a return of 2.41%, while real return assets yielded 3.33%. Emerging market debt produced a return of 1.67%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 7.50% for the fiscal year ended August 31, 2020, under-performing the benchmark index of 8.54% by approximately 104 basis points. The Liquid(SBOE) investment in Short Term Fixed Income yielded 2.78% and Cash Reserves yielded 1.62%. Combined, Liquid(SBOE) asset classes produced an investment return, net of fees, of 2.35%, out-performing the benchmark index of 2.04% by approximately 31 basis points. All PSF(SLB) externally managed investments (including cash) returned -12.27% net of fees for the fiscal year ending August 31, 2020.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $2.0 billion, a decrease of $1.7 billion from fiscal year 2019 earnings of $3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 5.6% for the fiscal year ending August 31, 2020. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2019 and 2020, the distribution from the SBOE to the ASF totaled $1.2 billion and $1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled $300 and $600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed $90.3 billion in bonds issued by 872 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,789 school district and charter district bond issues totaling $202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by $5.9 billion or 7.0%. The State Capacity Limit increased by $4.7 billion, or 3.8%, during fiscal year 2020 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2020 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

**2011 and 2019 Constitutional Amendment**

On November 8, 2011, a referendum was held in the State as a result of legislation enacted that year that proposed amendments to various sections of the Texas Constitution pertaining to the PSF. At that referendum, voters of State approved non-substantive changes to the Texas Constitution to clarify references to the Fund, and, in addition, approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF, and authorized the SLB to make direct transfers to the ASF, as described below.

The amendments approved at the referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets were already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately $2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

If there are no reductions in the percentage established biennially by the SBOE to be the Distribution Rate, the impact of the increase in the base against which the Distribution Rate is applied will be an increase in the distributions from the PSF to the ASF. As a result, going forward, it may be necessary for the SBOE to reduce the Distribution Rate in order to preserve the corpus of the Fund in accordance with its management objective of preserving intergenerational equity.

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a 2.974% Distribution Rate equating to $2.2 billion for State fiscal biennium 2020-2021, with the transfers to be made in equal monthly increments of $92.2 million. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB to transfer $10 million to the PSF in fiscal year 2020 and $45 million in fiscal year 2021. In September 2020, the SBOE approved a special, one-time transfer of $300 million from the portion of the PSF managed by the SBOE to the Real Estate Special Fund Account of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas. In November 2020, the SBOE approved a projected $3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. The biennial distribution determined by the SBOE in November 2020 represents a 4.18% Distribution Rate for the 2022-2023 biennium. As in prior biennia, the direct PSF distributions to the ASF will be made in equal monthly increments. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the GLO of $875 million for the biennium.

Changes in the Distribution Rate for each biennial period have been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

The constitutional amendments approved on November 8, 2011 also provided authority to the GLO or another entity (described in statute as the School Land Board, Chapter 32, Natural Resources Code) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO or SLB was limited to $300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to $600 million each year from the revenue derived during that year from the PSF from the GLO or SLB, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. Additionally, in making its determination of the amount to distribute to the ASF, the SBOE takes into account information available to it regarding the planned annual distribution to be made to the ASF by the GLO.

**Other Events and Disclosures**

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in April 2018. The SBOE code of ethics includes prohibitions on sharing confidential information, avoiding conflict of interests and requiring disclosure filings with respect to contributions made or received in connection with the operation or management of the Fund. The code of ethics applies to members of the SBOE as well as to persons who are responsible by contract or by virtue of being a TEA PSF staff member for managing, investing, executing brokerage transactions, providing consultant services, or acting as a custodian of the PSF, and persons who provide investment and management advice to a member of the SBOE, with or without compensation under certain circumstances. The code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.5 et seq., and is available on the TEA web site at http://ritter.tea.state.tx.us/rules/tac/chapter033/ch033a.html#33.5.

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

In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an $18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of $11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of $30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and $30.4 million for each of the fiscal years 2018 and 2019.

As of August 31, 2020, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

**PSF Continuing Disclosure Undertaking**

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_Statement_-_Bond_Guarantee_Program/. The most recent amendment to the TEA Rule was adopted by the SBOE on February 1, 2019, and is summarized below. Through the adoption of the TEA Rule and its commitment to guarantee bonds, the SBOE has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Rule obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Rule pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA agreement, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

**Annual Reports**

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

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund were prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

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

**Event Notices**

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

**Availability of Information**

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

**Limitations and Amendments**

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

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

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

**Compliance with Prior Undertakings**

During the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12.

**SEC Exemptive Relief**

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

## STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

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

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

## CURRENT PUBLIC SCHOOL FINANCE SYSTEM

*During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District is still in the process of (a) analyzing the provisions of HB 3 and SB 2, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.*

**Overview**

The following language constitutes only a summary of the public school finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to $1.50 per $100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education (the "Commissioner"). This compression percentage was historically set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at $1.00 per $100 of taxable value, since most school districts in the State had a voted maximum M&O tax rate of $1.50 per $100 of taxable value (though certain school districts located in Harris County had special M&O tax rate authorizations allowing a higher M&O tax rate). School districts were permitted, however, to generate additional local funds by raising their M&O tax rate up to $0.04 above the compressed tax rate or, with voter-approval at a valid election in the school district, up to $0.17 above the compressed tax rate (for most school districts, this equated to an M&O tax rate between $1.04 and $1.17 per $100 of taxable value). School districts received additional State funds in proportion to such taxing effort.

On January 12, 2021, the 87th Texas Legislature will convene in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to funding public schools, including the District. The District makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the District.

**Local Funding for School Districts**

During the 2019 Legislative Session, the State Legislature made several significant changes to the funding methodology for school districts (the "2019 Legislation"). The 2019 Legislation orders a school district's M&O tax rate into two distinct parts: the "Tier One Tax Rate", which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. The 2019 Legislation amended formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

***State Compression Percentage***

The "State Compression Percentage" for the State fiscal year ending in 2020 (the 2019-2020 school year) is a statutorily-defined percentage of the rate of $1.00 per $100 at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which a school district is entitled. For the State fiscal year ending in 2020, the State Compression Percentage is set at 93% per $100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

***Maximum Compressed Tax Rate***

Pursuant to the 2019 Legislation, beginning with the State fiscal year ending in 2021 (the 2020-2021 school year) the Maximum Compressed Tax Rate (the "MCR") is the tax rate per $100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by $1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase.

***Tier One Tax Rate***

For the 2019-2020 school year, the Tier One Tax Rate is the State Compression Percentage multiplied by (i) $1.00, or (ii) for a school district that levied an M&O tax rate for the 2018-2019 school year that was less than $1.00 per $100 of taxable value, the total number of cents levied by the school district for the 2018-2019 school year for M&O purposes; effectively setting the Tier One Tax Rate for the State fiscal year ending in 2020 for most school districts at $0.93. Beginning in the 2020-2021 school year, a school district's Tier One Tax Rate is defined as a school district's M&O tax rate levied that does not exceed the school district's MCR.

***Enrichment Tax Rate***

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to $0.93 for the 2019-2020 school year, or equal to the school district's MCR for the 2020-2021 and subsequent years. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

**State Funding for School Districts**

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

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

The current public school finance system also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of $1,323,444,300 for the EDA, IFA, and NIFA.

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

***Tier One***

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

For the 2019-2020 State fiscal year, the Basic Allotment for school districts with a Tier One Tax Rate equal to $0.93, is $6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than $0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is $6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by $6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

***Tier Two***

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from $31.95 per Copper Penny per student in WADA for the 2018-2019 school year to $49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate of $0.17 in school year 2018-2019 must reduce their Enrichment Tax Rate to approximately $0.138 per $100 taxable value for the 2019-2020 school year.

***Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment***

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been $35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) $40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of $60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were $35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first $0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the State Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the State Legislature for the 2020-2021 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2020-2021 State fiscal biennium on new bonds issued by school districts in the 2020-2021 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2019 Legislative Session, the State Legislature appropriated funds in the amount of $100,000,000 for each fiscal year of the 2020-2021 State fiscal biennium for NIFA allotments.

***Tax Rate and Funding Equity***

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year.

**Local Revenue Level in Excess of Entitlement**

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

Whereas prior to the 2019 Legislation, the recapture process had been based on the proportion of a school district's assessed property value per student in ADA, recapture is now measured by the "local revenue level" (being the M&O tax revenues generated in a school district) in excess of the entitlements appropriated by the State Legislature each fiscal biennium. Therefore, school districts are now guaranteed that recapture will not reduce revenue below their statutory entitlement. The changes to the wealth transfer provisions are expected to reduce the cumulative amount of recapture payments paid by school districts by approximately $3.6 billion during the 2020-2021 State fiscal biennium.

***Options for Local Revenue Levels in Excess of Entitlement***

Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

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

**Possible Effects of Wealth Transfer Provisions on the District's Financial Condition**

For the 2020-2021 school year, the District was designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2020-21 school year, for the purpose of implementing permitted wealth equalization options.

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

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

## AD VALOREM TAX PROCEDURES

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

### Valuation of Taxable Property

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

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

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

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

### State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $25,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions.

### Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than $5,000) and (2) an additional exemption of at least $3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

### State Mandated Freeze on School District Taxes

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

### Personal Property

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

### Freeport and Goods-In-Transit Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

**Other Exempt Property**

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

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

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Tax Code was enacted during the 2019 legislative session, and there is no judicial precedent for how the statute will be applied. Texas Attorney General Opinion KP-0299, issued on April 13, 2020, concluded a court would likely find the Texas Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

**Tax Increment Reinvestment Zones**

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

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

**Tax Limitation Agreements**

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM TAX PROCEDURES – The Property Tax Code as Applied to the District" herein.

**District and Taxpayer Remedies**

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

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

**Levy and Collection of Taxes**

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

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

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

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

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

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

## TAX RATE LIMITATIONS

**M&O Tax Rate Limitations**

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on February 7, 2004 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

The 2019 Legislation established the following maximum M&O tax rate per $100 of taxable value that may be adopted by independent school districts, such as the District, for the 2019 and subsequent tax years:

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that could be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage was set at 93%.
>
> For the 2020 and subsequent tax years, the maximum maintenance tax rate per $100 of taxable value that may be adopted by an independent school district is the sum of $0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is $0.93.

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

**I&S Tax Rate Limitations**

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the $0.50 threshold tax rate test. In connection with prior bond issues, the District has used projected property values to satisfy this threshold test and has used up to $9.53 million of Tier One funds in demonstrating compliance with the $0.50 threshold debt service test.

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

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

For the 2019 tax year, a school district was required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit being the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2019 tax year, the Voter-Approval Tax Rate for a school district was the sum of (i) the State Compression Percentage, multiplied by $1.00; (ii) the greater of (a) the school district's M&O tax rate for the 2018 tax year, less the sum of (1) $1.00, and (2) any amount by which the school district is required to reduce its Enrichment Tax Rate for the 2019 tax year, or (b) $0.04; and (iii) the school district's I&S tax rate. For the 2019 tax year, a school district's M&O tax rate could not exceed the rate equal to the sum of (i) $0.17 and (ii) the product of the State Compression Percentage multiplied by $1.00.

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than $0.97 (excluding the school district's current I&S tax rate) could not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. At an election held on November 6, 2007, the voters in the District approved an increase in the District's M&O tax rate. For the 2019 tax year, the District's Voter-Approval Tax Rate (excluding its current I&S tax rate) is $1.0684. For the 2019 tax year, the District was not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate.

Beginning with the 2020 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-new-revenue tax rate" calculated for that tax year or the tax rate adopted by the school district for the preceding tax year. A school district's failure to adopt a tax rate in excess of the Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

For the 2020 and subsequent tax years, the Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of $0.05 per $100 of taxable value; and (iii) the school district's current I&S tax rate. However, for only the 2020 tax year, if the governing body of the school district does not adopt by unanimous vote an M&O tax rate at least equal to the sum of the school district's MCR plus $0.05, then $0.04 is substituted for $0.05 in the calculation for such school district's Voter-Approval Tax Rate for the 2020 tax year. For the 2020 tax year, and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) $0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein, for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

Beginning with the 2020 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the school district's Voter-Approval Tax Rate without approval by a majority of the voters approving the higher rate at an election to be held on the next uniform election date. Further, subject to certain exceptions for areas declared disaster areas, State law requires the board of trustees of a school district to conduct an efficiency audit before seeking voter approval to adopt a tax rate exceeding the Voter-Approval Tax Rate and sets certain parameters for conducting and disclosing the results of such efficiency audit. An election is not required for a tax increase to address increased expenditures resulting from certain natural disasters in the year following the year in which such disaster occurs; however, the amount by which the increased tax rate exceeds the school district's Voter-Approval Tax Rate for such year may not be considered by the school district in the calculation of its subsequent Voter-Approval Tax Rate.

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

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

Beginning with the 2020 tax year, a school district must annually calculate and prominently post on its internet website, and submit to the county tax assessor-collector for each county in which all or part of the school district is located its Voter-Approval Tax Rate in accordance with forms prescribed by the State Comptroller.

## THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

Each Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective county. Each Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the respective county.

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

The District does not grant a local exemption of 20% of the market value of all residence homesteads.

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

The District does not tax personal property not used in the production of income, such as personal automobiles.

The District collects an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by Collin County Tax Office.

The District does not allow split payments and does not give discounts for early payment of taxes.

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

The District has not taken action to tax "goods-in-transit".

The District has granted the freeport exemption.

## EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2020, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "Note L. Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

In addition to its participation in TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note M. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

As a result of its participation in TRS and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

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

## RATINGS

The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Fitch Ratings, Inc. ("Fitch") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the TEA. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying ratings, including the Bonds, are "Aa3" by Moody's and "AA-" by Fitch.

An explanation of the significance of such rating may be obtained from Moody's and Fitch. The rating on the Bonds by Moody's and Fitch reflects only the view of said company at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by Moody's and Fitch, if, in the judgment of Moody's and Fitch, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. The District expects to pay the fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The legal fee to be paid to the Underwriters' counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions “THE BONDS” (except under the subcaptions “Permanent School Fund Guarantee”, “Payment Record”, and “Sources and Uses of Funds,” as to which no opinion will be expressed), “REGISTRATION, TRANSFER AND EXCHANGE”, “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM”, (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition," as to which no opinion will be expressed) “TAX RATE LIMITATIONS”, “LEGAL MATTERS” (except for the last two sentences of the first paragraph thereunder), “TAX MATTERS”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE” and “CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption “Compliance with Prior Undertakings,” as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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

## TAX MATTERS

### Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C – Form of Legal Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed therewith, and (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

**Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

**Future and Proposed Legislation**

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

**State, Local and Foreign Taxes**

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

**Information Reporting and Backup Withholding**

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

## INVESTMENT POLICIES

**Investments**

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

**Legal Investments**

Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidy thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof).

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

**Investment Policies**

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Effective September 1, 2019, the investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

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

**Additional Provisions**

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

**Current Investments**

As of October 31, 2020, the District had approximately $59,029,628 (unaudited) invested in TexPool, $53,346,198 (unaudited) invested in Lone Star, $20,014,066 (unaudited) invested in Texas FIT Investment Pool (all of which operate as money market equivalents) and $63,444,549 (unaudited) invested at the local depository bank. The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

## REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

## FINANCIAL ADVISOR

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

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

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

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

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

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2021. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule").

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### Notice of Certain Events

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

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

### Limitations and Amendments

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

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

**Compliance with Prior Undertakings**

The District is of the view that during the past five years it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## LITIGATION

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

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

## FORWARD-LOOKING STATEMENTS

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

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

## UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters’ discount of $________, plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds. The Underwriters’ obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Piper Sandler & Co., one of the underwriters of the Bonds, has entered into a distribution agreement (“Distribution Agreement”) with Charles Schwab & Co., Inc. (“CS&Co”) for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper Sandler & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

On November 4, 2019, First Horizon and IberiaBank announced its intention to enter into a merger, creating a leading regional financial services company. This transaction is now complete effective July 1, 2020. The new company retains the name First Horizon and will have its headquarters in Memphis, TN, expanding its presence to eleven states in the combined organization’s existing footprint.

RBC Capital Markets, LLC (“RBCCM”) and its affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBCCM and its affiliates may make a market in credit default swaps with respect to municipal securities in the future. RBCCM and its affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

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

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

**CONCLUDING STATEMENT**

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

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

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

The Bond Order authorized the Pricing Officer to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Underwriters. This Official Statement will be approved by the Pricing Officer of the District for distribution in accordance with the provisions of the Rule.

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Pricing Officer

# APPENDIX A

## FINANCIAL INFORMATION OF THE DISTRICT

## PROSPER INDEPENDENT SCHOOL DISTRICT

### Financial Information

**ASSESSED VALUATION [(1)]**

| | | |
|---|---|---|
| 2020/21 Total Valuation…… | | $ 13,614,126,424 |
| Less Exemptions & Deductions [(2)]: | | |
| State Homestead Exemption | $ 404,963,417 | |
| State Over-65 Exemption | 23,908,517 | |
| Disabled Exemption | 101,047,430 | |
| Veterans Exemption | 4,418,470 | |
| Surviving Spouse Disabled Veteran Exemption | 1,887,975 | |
| Freeport Exemption | 4,839,984 | |
| Pollution Control Exemption Loss | 2,693,634 | |
| Solar Exemption Loss | 50,561 | |
| Productivity Loss | 1,960,276,532 | |
| Homestead Cap Loss | 21,850,584 | |
| | $ 2,525,937,104 | |
| 2020/21 Net Taxable Valuation …… | | $ 11,088,189,320 |

*(1) Source: Certified Values from the Collin and Denton Central Appraisal Districts as of September 2020. The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000. See "AD VALOREM TAX PROCEDURES -- Residential homestead Exemptions" in the Official Statement.*
*(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers, which totaled $119,183,728 for 2019/20.*

**VOTED GENERAL OBLIGATION DEBT**

| | | |
|---|---|---|
| Unlimited Tax Bonds Outstanding (as of February 15, 2021) [(1)] | | $ 908,613,391 |
| Plus: The Series 2021 Bonds [(2)] | | 50,000,000 |
| Total Unlimited Tax Bonds [(1) (2)] | | 958,613,391 |
| Less: Interest & Sinking Fund Balance (As of August 31, 2020) [(3)] | | (14,918,267) |
| Net General Obligation Debt | | $ 943,695,124 |
| Ratio of Net G.O. Debt to Net Taxable Valuation [(4)] | 8.51% | |
| 2021 Population Estimate [(5)] | 112,204 | |
| Per Capita Net Taxable Valuation | $98,822 | |
| Per Capita Net G.O. Debt | $8,411 | |

*(1) Excludes interest accreted on outstanding capital appreciation bonds.*
*(2) Preliminary, subject to change.*
*(3) Source: Prosper ISD Audited Financial Statement.*
*(4) The ratio of Net Obligations to Net Taxable Valuation above does not include the Maintenance Tax Notes, Series 2013, which are payable solely from the limited maintenance and operations tax or other lawfully available funds of the District. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2020" in Appendix D for more information relative to the District's long-term obligations other than unlimited tax bonds.*
*(5) Source: Municipal Advisory Council of Texas.*

**PROPERTY TAX RATES AND COLLECTIONS**

| Fiscal Year | Net Taxable Valuation | Tax Rate | % Collections [(4)] Current [(5)] | Total [(5)] |
|---|---|---|---|---|
| 2006/07 | $ 1,005,087,844 [(1)] | $ 1.8000 [(6)] | 97.34% | 98.22% |
| 2007/08 | 1,371,178,569 [(1)] | 1.6700 [(6)] | 96.54% | 99.49% |
| 2008/09 | 1,664,637,580 [(1)] | 1.6700 | 97.65% | 100.62% |
| 2009/10 | 1,712,619,260 [(1)] | 1.6400 | 98.83% | 100.89% |
| 2010/11 | 1,770,818,404 [(1)] | 1.6300 | 99.34% | 100.36% |
| 2011/12 | 1,882,533,805 [(1)] | 1.6700 | 99.00% | 98.29% |
| 2012/13 | 2,082,890,013 [(1)] | 1.6700 | 99.23% | 99.42% |
| 2013/14 | 2,423,441,929 [(1)] | 1.6700 | 99.09% | 99.43% |
| 2014/15 | 3,026,355,950 [(1)] | 1.6700 | 98.95% | 99.35% |
| 2015/16 | 3,824,546,090 [(1) (3)] | 1.6700 | 99.40% | 99.61% |
| 2016/17 | 5,018,991,621 [(1) (3)] | 1.6700 | 99.74% | 101.41% |
| 2017/18 | 6,609,955,668 [(1) (3)] | 1.6700 | 99.76% | 100.00% |
| 2018/19 | 8,349,057,984 [(1) (3)] | 1.6700 | 99.55% | 99.44% |
| 2019/20 | 9,852,214,992 [(1) (3)] | 1.5684 [(7)] | 99.59% | 100.54% |
| 2020/21 | 11,088,189,320 [(2) (3)] | 1.4927 | | |

*(1) Source: Comptroller of Public Accounts - Property Tax Division. See the Assessed Valuation section in this Appendix for additional information.*
*(2) Source: Certified Values from the Collin and Denton Central Appraisal Districts as of September 2020.*
*(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.*
*(4) Source: Prosper ISD Audited Financial Statements.*
*(5) Excludes penalties and interest.*
*(6) The decline in the District's Maintenance & Operation Tax from the 2006/07 fiscal year to the 2007/08 fiscal year is a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.*
*(7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"- Local Funding for School Districts" in the Official Statement.*

## TAX RATE DISTRIBUTION [1]

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 [2] | 2020/21 |
|---|---|---|---|---|---|
| Maintenance & Operations | $1.1700 | $1.1700 | $1.1700 | $1.0684 | $0.9927 |
| Debt Service | $0.5000 | $0.5000 | $0.5000 | $0.5000 | $0.5000 |
| Total Tax Rate | $1.6700 | $1.6700 | $1.6700 | $1.5684 | $1.4927 |

*(1) On November 6, 2007, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed $1.17.*

*(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.*

## VALUATION AND FUNDED DEBT HISTORY

| Fiscal Year | Net Taxable Valuation | Bond Debt Outstanding [1] | Ratio Debt to A.V. [2] |
|---|---|---|---|
| 2006/07 | $ 1,005,087,844 | $ 84,078,459 | 8.37% |
| 2007/08 | 1,371,178,569 | 154,362,198 | 11.26% |
| 2008/09 | 1,664,637,580 | 239,014,032 | 14.36% |
| 2009/10 | 1,712,619,260 | 237,386,762 | 13.86% |
| 2010/11 | 1,770,818,404 | 236,869,318 | 13.38% |
| 2011/12 | 1,882,533,805 | 235,315,486 | 12.50% |
| 2012/13 | 2,082,890,013 | 233,531,557 | 11.21% |
| 2013/14 | 2,423,441,929 | 267,875,581 | 11.05% |
| 2014/15 | 3,026,355,950 | 270,181,146 | 8.93% |
| 2015/16 | 3,824,546,090 | 336,760,691 | 8.81% |
| 2016/17 | 5,018,991,621 | 446,148,641 | 8.89% |
| 2017/18 | 6,609,955,668 | 616,329,002 | 9.32% |
| 2018/19 | 8,349,057,984 | 784,243,637 | 9.39% |
| 2019/20 | 9,852,214,992 | 924,423,391 | 9.38% |
| 2020/21 | 11,088,189,320 [3] | 958,175,164 [4] | 8.64% |

*(1) At fiscal year end. Excludes interest accreted on outstanding capital appreciation bonds.*
*(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2020" in Appendix D for more information.*
*(3) Certified Values from the Collin and Denton Central Appraisal Districts as of September 2020.*
*(4) Includes the Series 2021 Bonds. Preliminary, subject to change.*

## ESTIMATED OVERLAPPING DEBT STATEMENT

| Taxing Body | Amount | Percent Overlapping | Amount Overlapping |
|---|---|---|---|
| Celina, City of | $ 58,806,169 | 32.83% | $ 19,306,065 |
| Collin Co | 487,405,000 | 3.72% | 18,131,466 |
| Collin Co CCD | 524,590,000 | 3.72% | 19,514,748 |
| Collin Co MUD #1 | 84,340,000 | 36.50% | 30,784,100 |
| Denton Co | 611,835,000 | 1.36% | 8,320,956 |
| Denton Co FWSD #10 | 125,865,000 | 34.97% | 44,014,991 |
| Frisco, City of | 476,392,106 | 4.08% | 19,436,798 |
| McKinney, City of | 273,645,000 | 5.41% | 14,804,195 |
| Prosper, Town of | 87,992,750 | 96.35% | 84,781,015 |
| Total Overlapping Debt [1] | | | $ 259,094,333 |
| Prosper Independent School District [2] [3] | | | 943,695,124 |
| Total Direct & Overlapping Debt [2] [3] | | | $ 1,202,789,457 |

| | |
|---|---|
| Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation | 10.85% |
| Per Capita Direct & Overlapping Debt | $10,720 |

*(1) Equals gross debt less self-supporting debt.*
*(2) Includes the Series 2021 Bonds. Excludes the interest accreted on outstanding capital appreciation bonds.*
*(3) Preliminary, subject to change.*

*Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.*

**2020/21 Top Ten Taxpayers [1]**

| Name of Taxpayer | Type of Business | Taxable Value | % of Net Valuation |
|---|---|---|---|
| 380 & 289 LP | Development | $ 81,913,266 | 0.74% |
| WMCI Dallas VI LLC | Development | 65,000,289 | 0.59% |
| DD Bluestem LLC | Development | 55,238,116 | 0.50% |
| DD Preston Road LLC | Development | 53,541,756 | 0.48% |
| 195AC BSAL Frisco LLC | Commercial Land | 42,862,058 | 0.39% |
| Orion Prosper Lakes LLC | Residential | 41,055,074 | 0.37% |
| Oncor Electric Delivery Company | Electric Utility | 36,554,760 | 0.33% |
| Northeast 423/380 Ltd. | Strip Mall | 36,234,243 | 0.33% |
| Kroger Texas LP | Grocer | 35,293,727 | 0.32% |
| Orion Prosper LLC | Residential | 33,534,821 | 0.30% |
| | | $ 481,228,110 | 4.34% |

**2019/20 Top Ten Taxpayers [2]**

| Name of Taxpayer | Type of Business | Taxable Value | % of Net Valuation |
|---|---|---|---|
| 380 & 289 LP | Development | $ 72,075,348 | 0.73% |
| WMCI Dallas VI LLC | Development | 58,711,095 | 0.60% |
| DD Preston Road LLC | Development | 48,303,044 | 0.49% |
| First Texas Homes Inc | Home Builder | 44,048,426 | 0.45% |
| Orion Prosper LLC | Residential | 38,760,000 | 0.39% |
| Wal-Mart Real Estate Business Trust | Trust | 36,437,429 | 0.37% |
| Blue Star Land LP | Residential | 36,309,926 | 0.37% |
| American Legend Homes LLC | Residential | 34,812,608 | 0.35% |
| Oncor Electric Delivery Company | Electric Utility | 34,635,601 | 0.35% |
| Kroger Texas LP | Grocer | 33,242,974 | 0.34% |
| | | $ 437,336,451 | 4.44% |

**2018/19 Top Ten Taxpayers [2]**

| Name of Taxpayer | Type of Business | Taxable Value | % of Net Valuation |
|---|---|---|---|
| Orion Prosper LLC | Residential | $ 69,000,000 | 0.83% |
| 380 & 289 LP | Development | 63,902,695 | 0.77% |
| First Texas Homes Inc | Home Builder | 50,236,570 | 0.60% |
| DHI Communities Inc | Home Builder | 45,285,290 | 0.54% |
| DD Preston Road LLC | Development | 44,700,000 | 0.54% |
| DD Bluestem LLC | Development | 43,425,000 | 0.52% |
| Horton D. R. - Texas Ltd | Home Builder | 40,192,240 | 0.48% |
| Lennar Homes - Texas Ltd | Home Builder | 39,862,260 | 0.48% |
| Wal-Mart Real Estate Business Trust | Trust | 36,076,662 | 0.43% |
| American Legend Homes LLC | Residential | 36,019,373 | 0.43% |
| | | $ 468,700,090 | 5.61% |

*(1) Source: Certified Values from the Collin and Denton Central Appraisal Districts.*
*(2) Source: Comptroller of Public Accounts - Property Tax Division, and the Collin and Denton Central Appraisal Districts.*

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

| Category | 2020/21 (1) | % of Total | 2019/20 (2) | % of Total | 2018/19 (2) | % of Total |
|---|---|---|---|---|---|---|
| Real, Residential, Single-Family | $ 9,085,346,898 | 66.73% | $ 7,835,557,358 | 64.68% | $ 6,447,829,135 | 61.11% |
| Real, Residential, Multi-Family | 258,128,444 | 1.90% | 244,410,190 | 2.02% | 204,719,830 | 1.94% |
| Real, Vacant Lots/Tracts | 316,926,325 | 2.33% | 151,648,303 | 1.25% | 125,651,005 | 1.19% |
| Real, Qualified Land & Improvements | 1,964,305,938 | 14.43% | 1,767,249,922 | 14.59% | 1,783,276,711 | 16.90% |
| Real, Non-Qualified Land & Improvements | 240,150,454 | 1.76% | 299,264,702 | 2.47% | 304,115,640 | 2.88% |
| Real, Commercial & Industrial | 824,463,499 | 6.06% | 762,986,196 | 6.30% | 606,038,214 | 5.74% |
| Oil & Gas | 14,920 | 0.00% | 14,920 | 0.00% | 14,920 | 0.00% |
| Utilities | 110,691,518 | 0.81% | 96,944,093 | 0.80% | 82,349,171 | 0.78% |
| Tangible Personal, Commercial | 240,857,228 | 1.77% | 206,220,558 | 1.70% | 179,318,152 | 1.70% |
| Tangible Personal, Industrial | 179,055 | 0.00% | 173,130 | 0.00% | 157,810 | 0.00% |
| Tangible Personal, Mobile Homes & Other | 609,686 | 0.00% | 500,233 | 0.00% | 499,448 | 0.00% |
| Tangible Personal, Residential Inventory | 565,863,812 | 4.16% | 743,844,838 | 6.14% | 814,410,398 | 7.72% |
| Tangible Personal, Special Inventory | 6,588,647 | 0.05% | 5,225,045 | 0.04% | 2,509,540 | 0.02% |
| **Total Appraised Value** | $ 13,614,126,424 | 100.00% | $ 12,114,039,488 | 100.00% | $ 10,550,889,974 | 100.00% |
| **Less:** | | | | | | |
| Homestead Cap Adjustment | $ 21,850,584 | | $ 39,633,684 | | $ 49,374,603 | |
| Productivity Loss | 1,960,276,532 | | 1,762,864,481 | | 1,778,744,550 | |
| Exemptions (3) | 543,809,988 | | 459,326,331 | | 373,712,837 | |
| Total Exemptions/Deductions (4) | $ 2,525,937,104 | | $ 2,261,824,496 | | $ 2,201,831,990 | |
| **Net Taxable Assessed Valuation** | $ 11,088,189,320 | | $ 9,852,214,992 | | $ 8,349,057,984 | |

| Category | 2017/18 (2) | % of Total | 2016/17 (2) | % of Total | 2015/16 (2) | % of Total |
|---|---|---|---|---|---|---|
| Real, Residential, Single-Family | $ 5,070,418,447 | 57.68% | $ 3,875,600,984 | 55.89% | $ 2,974,696,684 | 53.53% |
| Real, Residential, Multi-Family | 157,231,246 | 1.79% | 54,954,076 | 0.79% | 51,561,092 | 0.93% |
| Real, Vacant Lots/Tracts | 170,930,903 | 1.94% | 99,161,319 | 1.43% | 78,897,595 | 1.42% |
| Real, Qualified Land & Improvements | 1,828,741,623 | 20.81% | 1,614,575,081 | 23.28% | 1,507,176,526 | 27.12% |
| Real, Non-Qualified Land & Improvements | 365,361,567 | 4.16% | 451,460,581 | 6.51% | 332,580,716 | 5.98% |
| Real, Commercial & Industrial | 405,060,353 | 4.61% | 322,243,398 | 4.65% | 229,640,104 | 4.13% |
| Oil & Gas | - | 0.00% | - | 0.00% | - | 0.00% |
| Utilities | 68,789,613 | 0.78% | 58,556,504 | 0.84% | 56,846,068 | 1.02% |
| Tangible Personal, Commercial | 137,546,381 | 1.56% | 107,324,908 | 1.55% | 94,425,918 | 1.70% |
| Tangible Personal, Industrial | 163,370 | 0.00% | 221,936 | 0.00% | 990,278 | 0.02% |
| Tangible Personal, Mobile Homes & Other | 616,374 | 0.01% | 631,828 | 0.01% | 567,756 | 0.01% |
| Tangible Personal, Residential Inventory | 584,342,766 | 6.65% | 348,826,634 | 5.03% | 229,670,926 | 4.13% |
| Tangible Personal, Special Inventory | 690,324 | 0.01% | 548,810 | 0.01% | 433,804 | 0.01% |
| **Total Appraised Value** | $ 8,789,892,967 | 100.00% | $ 6,934,106,059 | 100.00% | $ 5,557,487,467 | 100.00% |
| **Less:** | | | | | | |
| Homestead Cap Adjustment | $ 63,656,897 | | $ 72,476,479 | | $ 42,138,983 | |
| Productivity Loss | 1,824,010,452 | | 1,609,313,609 | | 1,501,300,026 | |
| Exemptions (3) | 292,269,950 | | 233,324,350 | | 189,502,368 | |
| Total Exemptions/Deductions (4) | $ 2,179,937,299 | | $ 1,915,114,438 | | $ 1,732,941,377 | |
| **Net Taxable Assessed Valuation** | $ 6,609,955,668 | | $ 5,018,991,621 | | $ 3,824,546,090 | |

*(1) Source: Certified Values from the Collin and Denton Central Appraisal Districts as of September 2020.*
*(2) Source: Comptroller of Public Accounts - Property Tax Division.*
*(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from $15,000 to $25,000.*
*(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.*

**PRINCIPAL REPAYMENT SCHEDULE**

| Fiscal Year Ending 8/31 | Outstanding Bonds (1) (2) | Plus: The Series 2021 Bonds (3) | Total (1) (2) (3) | Bonds Unpaid At Fiscal Year End | Percent of Principal Retired |
|---|---|---|---|---|---|
| 2021 | $ 16,248,227.70 | $ - | $ 16,248,227.70 | $ 958,175,163.60 | 1.67% |
| 2022 | 17,216,025.80 | - | 17,216,025.80 | 940,959,137.80 | 3.43% |
| 2023 | 18,553,898.25 | - | 18,553,898.25 | 922,405,239.55 | 5.34% |
| 2024 | 19,402,271.80 | 85,000.00 | 19,487,271.80 | 902,917,967.75 | 7.34% |
| 2025 | 20,296,541.30 | 875,000.00 | 21,171,541.30 | 881,746,426.45 | 9.51% |
| 2026 | 21,201,690.00 | 915,000.00 | 22,116,690.00 | 859,629,736.45 | 11.78% |
| 2027 | 22,127,520.35 | 955,000.00 | 23,082,520.35 | 836,547,216.10 | 14.15% |
| 2028 | 21,977,216.10 | 1,000,000.00 | 22,977,216.10 | 813,570,000.00 | 16.51% |
| 2029 | 25,540,000.00 | 1,040,000.00 | 26,580,000.00 | 786,990,000.00 | 19.24% |
| 2030 | 26,620,000.00 | 1,075,000.00 | 27,695,000.00 | 759,295,000.00 | 22.08% |
| 2031 | 27,655,000.00 | 1,110,000.00 | 28,765,000.00 | 730,530,000.00 | 25.03% |
| 2032 | 28,745,000.00 | 1,150,000.00 | 29,895,000.00 | 700,635,000.00 | 28.10% |
| 2033 | 29,845,000.00 | 1,185,000.00 | 31,030,000.00 | 669,605,000.00 | 31.28% |
| 2034 | 30,950,000.00 | 1,225,000.00 | 32,175,000.00 | 637,430,000.00 | 34.58% |
| 2035 | 32,105,000.00 | 1,265,000.00 | 33,370,000.00 | 604,060,000.00 | 38.01% |
| 2036 | 33,345,000.00 | 1,305,000.00 | 34,650,000.00 | 569,410,000.00 | 41.56% |
| 2037 | 34,740,000.00 | 1,350,000.00 | 36,090,000.00 | 533,320,000.00 | 45.27% |
| 2038 | 36,240,000.00 | 1,395,000.00 | 37,635,000.00 | 495,685,000.00 | 49.13% |
| 2039 | 37,805,000.00 | 1,440,000.00 | 39,245,000.00 | 456,440,000.00 | 53.16% |
| 2040 | 39,475,000.00 | 1,490,000.00 | 40,965,000.00 | 415,475,000.00 | 57.36% |
| 2041 | 41,215,000.00 | 1,540,000.00 | 42,755,000.00 | 372,720,000.00 | 61.75% |
| 2042 | 42,975,000.00 | 1,590,000.00 | 44,565,000.00 | 328,155,000.00 | 66.32% |
| 2043 | 44,835,000.00 | 1,640,000.00 | 46,475,000.00 | 281,680,000.00 | 71.09% |
| 2044 | 42,665,000.00 | 2,135,000.00 | 44,800,000.00 | 236,880,000.00 | 75.69% |
| 2045 | 44,600,000.00 | 2,205,000.00 | 46,805,000.00 | 190,075,000.00 | 80.49% |
| 2046 | 46,635,000.00 | 2,280,000.00 | 48,915,000.00 | 141,160,000.00 | 85.51% |
| 2047 | 45,955,000.00 | 2,665,000.00 | 48,620,000.00 | 92,540,000.00 | 90.50% |
| 2048 | 36,105,000.00 | 4,065,000.00 | 40,170,000.00 | 52,370,000.00 | 94.63% |
| 2049 | 24,590,000.00 | 4,200,000.00 | 28,790,000.00 | 23,580,000.00 | 97.58% |
| 2050 | 14,760,000.00 | 4,340,000.00 | 19,100,000.00 | 4,480,000.00 | 99.54% |
| 2051 | - | 4,480,000.00 | 4,480,000.00 | - | 100.00% |
| Total | $ 924,423,391.30 | $ 50,000,000.00 | $ 974,423,391.30 | | |

*(1) Excludes the accreted value of outstanding capital appreciation bonds.*

*(2) Principal payments in years 2044 through 2050 represents mandatory sinking fund payments for a term bond maturing on February 15, 2050.*

*(3) Preliminary, subject to change.*

**OTHER OBLIGATIONS**

| Fiscal Year | Maintenance Tax Notes, Series 2013 | | |
|---|---|---|---|
| Ending 8/31 | Principal | Interest | Total |
| 2021 | $ 625,000.00 | $ 174,075.00 | $ 799,075.00 |
| 2022 | 640,000.00 | 158,450.00 | 798,450.00 |
| 2023 | 655,000.00 | 142,450.00 | 797,450.00 |
| 2024 | 675,000.00 | 122,800.00 | 797,800.00 |
| 2025 | 695,000.00 | 102,550.00 | 797,550.00 |
| 2026 | 720,000.00 | 78,225.00 | 798,225.00 |
| 2027 | 745,000.00 | 53,025.00 | 798,025.00 |
| 2028 | 770,000.00 | 26,950.00 | 796,950.00 |
| Total | $ 5,525,000.00 | $ 858,525.00 | $ 6,383,525.00 |

**DEBT SERVICE REQUIREMENTS**

| Fiscal Year Ending 8/31 | Outstanding Debt Service (1) (2) (3) | Plus: The Series 2021 Bonds (4) Principal | Interest | Total | Combined Total (1) (2) (3) (4) (5) |
|---|---|---|---|---|---|
| 2021 | $ 56,005,561.63 | $ - | $ - | $ - | $ 56,005,561.63 |
| 2022 | 56,653,726.08 | - | 2,577,735.07 | 2,577,735.07 | 59,231,461.15 |
| 2023 | 56,640,373.00 | - | 1,675,062.50 | 1,675,062.50 | 58,315,435.50 |
| 2024 | 56,633,873.65 | 85,000.00 | 1,673,256.25 | 1,758,256.25 | 58,392,129.90 |
| 2025 | 56,627,439.03 | 875,000.00 | 1,649,575.00 | 2,524,575.00 | 59,152,014.03 |
| 2026 | 56,627,198.71 | 915,000.00 | 1,608,256.25 | 2,523,256.25 | 59,150,454.96 |
| 2027 | 56,625,003.03 | 955,000.00 | 1,568,518.75 | 2,523,518.75 | 59,148,521.78 |
| 2028 | 56,621,898.06 | 1,000,000.00 | 1,526,975.00 | 2,526,975.00 | 59,148,873.06 |
| 2029 | 56,622,852.74 | 1,040,000.00 | 1,486,225.00 | 2,526,225.00 | 59,149,077.74 |
| 2030 | 56,625,353.13 | 1,075,000.00 | 1,449,256.25 | 2,524,256.25 | 59,149,609.38 |
| 2031 | 56,626,100.00 | 1,110,000.00 | 1,413,750.00 | 2,523,750.00 | 59,149,850.00 |
| 2032 | 56,625,927.05 | 1,150,000.00 | 1,377,025.00 | 2,527,025.00 | 59,152,952.05 |
| 2033 | 56,619,307.85 | 1,185,000.00 | 1,339,081.25 | 2,524,081.25 | 59,143,389.10 |
| 2034 | 56,619,949.48 | 1,225,000.00 | 1,299,918.75 | 2,524,918.75 | 59,144,868.23 |
| 2035 | 56,622,652.96 | 1,265,000.00 | 1,259,456.25 | 2,524,456.25 | 59,147,109.21 |
| 2036 | 56,622,634.86 | 1,305,000.00 | 1,217,693.75 | 2,522,693.75 | 59,145,328.61 |
| 2037 | 56,624,914.81 | 1,350,000.00 | 1,174,550.00 | 2,524,550.00 | 59,149,464.81 |
| 2038 | 56,625,290.33 | 1,395,000.00 | 1,129,943.75 | 2,524,943.75 | 59,150,234.08 |
| 2039 | 56,626,957.23 | 1,440,000.00 | 1,083,875.00 | 2,523,875.00 | 59,150,832.23 |
| 2040 | 56,622,952.41 | 1,490,000.00 | 1,036,262.50 | 2,526,262.50 | 59,149,214.91 |
| 2041 | 56,624,493.36 | 1,540,000.00 | 987,025.00 | 2,527,025.00 | 59,151,518.36 |
| 2042 | 56,624,430.48 | 1,590,000.00 | 936,162.50 | 2,526,162.50 | 59,150,592.98 |
| 2043 | 56,622,827.10 | 1,640,000.00 | 883,675.00 | 2,523,675.00 | 59,146,502.10 |
| 2044 | 52,541,825.00 | 2,135,000.00 | 822,331.25 | 2,957,331.25 | 55,499,156.25 |
| 2045 | 52,541,275.00 | 2,205,000.00 | 751,806.25 | 2,956,806.25 | 55,498,081.25 |
| 2046 | 52,538,050.00 | 2,280,000.00 | 678,925.00 | 2,958,925.00 | 55,496,975.00 |
| 2047 | 49,793,075.00 | 2,665,000.00 | 598,568.75 | 3,263,568.75 | 53,056,643.75 |
| 2048 | 38,165,250.00 | 4,065,000.00 | 489,206.25 | 4,554,206.25 | 42,719,456.25 |
| 2049 | 25,439,625.00 | 4,200,000.00 | 354,900.00 | 4,554,900.00 | 29,994,525.00 |
| 2050 | 14,957,400.00 | 4,340,000.00 | 216,125.00 | 4,556,125.00 | 19,513,525.00 |
| 2051 | | 4,480,000.00 | 72,800.00 | 4,552,800.00 | 4,552,800.00 |
| | $ 1,587,768,216.98 | $ 50,000,000.00 | $ 34,337,941.32 | $ 84,337,941.32 | $ 1,672,106,158.30 |

*(1) Includes the accreted value of outstanding capital appreciation bonds.*
*(2) Interest on the Series 2019B Adjustable Rate Bonds is calculated at the Initial Rate of 2.00%, through August 14, 2023, and for purposes of illustration, assumed to remain at 2.00% thereafter through stated maturity which is consistent with the District's planning estimate. The Highest Rate that the bond interest rate could reset to, commencing or after August 15, 2023, is 8.00%.*
*(3) Principal payments in years 2044 through 2050 represents mandatory sinking fund payments for a term bond maturing on February 15, 2050.*
*(4) Preliminary, subject to change.*
*(5) Based on its wealth per student, the District does not expect to receive Instructional Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2020/21. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.*

**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS**

| | |
|---|---|
| Projected Maximum Debt Service Requirement (1) | $ 59,231,461.15 |
| Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption (2) | 260,000.00 |
| Projected Net Debt Service Requirement | $ 58,971,461.15 |
| $0.53721 Tax Rate @ 99% Collections Produces (3) | $ 58,971,461.15 |
| 2020/21 Net Taxable Valuation | $ 11,088,189,320 |

*(1) Includes the Series 2021 Bonds. Excludes the accreted value of outstanding capital appreciation bonds.*
*(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM."*
*(3) The District has utilized State tier one funds to pass the Attorney General's 50-cent Test with respect to the Bonds issued for new construction purposes that are subject to the test. Because the District uses State tier one funds to pass the test, under current law it must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the $0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the $0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts", "DEBT LIMITATIONS" and "TAX RATE LIMITATIONS."*

**AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Series 2021 Bonds, the District will have $1,132,000,000 (preliminary, subject to change) of authorized but unissued unlimited ad valorem tax bonds from the May 4, 2019 election. The bond election represents a multi-year debt issuance plan for the purposes of school facilities in the District, including the purchase of new school buses and the purchase of necessary sites for school buildings. The District will need to continue to have tax base growth to have capacity to issue bonds and stay within the $0.50 threshold test for school construction bonds, as required by the Texas Education Code. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES [1]**

| | Fiscal Year Ending August 31 | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| **Beginning Fund Balance** | **$ 42,432,534** | **$ 46,310,569** | **$ 59,677,306** | **$ 84,700,359** | **$ 99,462,230** |
| **Revenues:** | | | | | |
| Local and Intermediate Sources | $ 50,620,446 | $ 64,123,400 | $ 80,582,294 | $ 102,665,011 | $ 111,541,783 |
| State Sources | 29,561,648 | 33,798,962 | 41,875,187 | 36,845,893 | 51,730,715 |
| Federal Sources & Other | 279,364 | 885,567 | 300,819 | 1,188,629 | 1,403,279 |
| **Total Revenues** | **$ 80,461,458** | **$ 98,807,929** | **$ 122,758,300** | **$ 140,699,533** | **$ 164,675,777** |
| **Expenditures:** | | | | | |
| Instruction | $ 43,158,643 | $ 53,128,629 | $ 61,448,579 | $ 78,479,337 | $ 95,799,456 |
| Instructional Resources & Media Services | 950,706 | 1,202,999 | 1,321,425 | 1,719,282 | 2,049,705 |
| Curriculum & Instructional Staff Development | 2,250,257 | 2,632,467 | 3,268,564 | 4,168,457 | 4,652,181 |
| Instructional Leadership | 508,345 | 746,120 | 918,436 | 1,221,467 | 1,192,104 |
| School Leadership | 3,428,078 | 4,382,391 | 4,722,826 | 5,955,741 | 7,678,049 |
| Guidance, Counseling & Evaluation Services | 1,289,234 | 1,543,367 | 1,727,835 | 2,159,689 | 2,599,115 |
| Health Services | 543,019 | 705,128 | 698,183 | 916,844 | 1,241,954 |
| Student (Pupil) Transportation | 2,968,923 | 4,053,408 | 4,344,539 | 5,673,860 | 6,382,949 |
| Cocurricular/Extracurricular Activities | 1,947,832 | 2,109,055 | 2,391,887 | 2,953,027 | 3,888,322 |
| General Administration | 1,835,322 | 2,038,791 | 2,240,307 | 2,908,488 | 4,037,671 |
| Plant Maintenance and Operations | 6,373,516 | 7,503,740 | 8,043,480 | 9,770,282 | 12,222,303 |
| Security and Monitoring Services | 437,509 | 972,818 | 960,055 | 1,547,828 | 2,091,927 |
| Data Processing Services | 2,265,410 | 2,369,849 | 2,571,338 | 4,288,301 | 4,207,561 |
| Community Services | 3,559 | 1,559 | 2,161 | 10,035 | 3,906 |
| Debt Service - Principal on Long Term Debt | 565,000 | 575,000 | 585,000 | 600,000 | 610,000 |
| Debt Service - Interest on Long Term Debt | 235,825 | 224,525 | 213,025 | 201,325 | 189,325 |
| Facilities Acquisition and Construction | 469,217 | 331,400 | 565,157 | 475,596 | - |
| Contracted Instructional Services Between Schools | - | 428,140 | 1,071,686 | 2,032,667 | - |
| Other Intergovernmental Charges | 386,807 | 491,805 | 640,764 | 855,436 | 999,841 |
| **Total Expenditures** | **$ 69,617,202** | **$ 85,441,191** | **$ 97,735,247** | **$ 125,937,662** | **$ 149,846,369** |
| Excess (Deficiency) of Revenues | | | | | |
| over Expenditures | $ 10,844,256 | $ 13,366,738 | $ 25,023,053 | $ 14,761,871 | $ 14,829,408 |
| **Other Resources and (Uses):** | | | | | |
| Transfers Out (Use) | $ (6,966,221) [2] | $ - | $ - | $ - | $ (50,000) |
| **Total Other Resources (Uses)** | **$ (6,966,221)** | **$ -** | **$ -** | **$ -** | **$ (50,000)** |
| Excess (Deficiency) of | | | | | |
| Revenues and Other Sources | | | | | |
| over Expenditures and Other Uses | $ 3,878,035 | $ 13,366,738 | $ 25,023,053 | $ 14,761,871 | $ 14,779,408 |
| **Ending Fund Balance** | **$ 46,310,569** | **$ 59,677,307** | **$ 84,700,359** | **$ 99,462,230** | **$ 114,241,638** |

*(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES" in Appendix D hereto for a discussion of the 2019/20 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in the Official Statement.*
*(2) Interfund transfers for the year ended August 31, 2016 consisted of $6,966,221 in transfers to the District's Capital Projects Fund.*

**CHANGE IN NET ASSETS** [1]

| | Fiscal Year Ending August 31 | | | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| **Revenues:** | | | | | |
| **Program Revenues:** | | | | | |
| Charges for Services | $ 5,105,413 | $ 6,457,383 | $ 7,348,222 | $ 10,308,375 | $ 10,018,869 |
| Operating Grants and Contributions | 6,204,810 | 5,480,591 | (10,400,747) | 10,906,738 | 15,252,208 |
| **General Revenues:** | | | | | |
| Property Taxes Levied for General Purposes | 45,010,417 | 57,476,392 | 75,855,367 | 95,925,447 | 103,571,705 |
| Property Taxes Levied for Debt Service | 19,235,111 | 24,562,421 | 32,416,639 | 40,993,548 | 48,471,314 |
| State Aid - Formula Grants | 27,056,468 | 30,823,707 | 38,131,856 | 31,920,912 | 44,158,278 |
| Grants and Contributions Not Restricted | 366,575 | 888,210 | 885,125 | 2,218,205 | 4,222,465 |
| Investment Earnings | 442,160 | 1,244,394 | 3,752,389 | 6,179,823 | 2,814,594 |
| Miscellaneous | 6,192,493 | 8,748,181 | 3,083,831 | 3,285,712 | 4,635,351 |
| **Total Revenue** | $ 109,613,447 | $ 135,681,279 | $ 151,072,682 | $ 201,738,760 | $ 233,144,784 |
| **Expenses:** | | | | | |
| Instruction | $ 50,006,285 | $ 59,434,729 | $ 51,592,464 | $ 94,367,090 | $ 121,697,224 |
| Instruction Resources & Media Services | 1,067,150 | 1,331,932 | 1,197,582 | 1,925,777 | 2,434,592 |
| Curriculum & Staff Development | 2,572,289 | 2,987,978 | 3,047,758 | 4,783,060 | 5,570,716 |
| Instructional Leadership | 616,107 | 864,650 | 792,351 | 1,427,962 | 1,543,079 |
| School Leadership | 3,980,586 | 4,996,964 | 3,855,548 | 6,848,085 | 9,580,531 |
| Guidance, Counseling & Evaluation Services | 1,509,162 | 1,780,346 | 1,477,905 | 2,573,072 | 3,302,307 |
| Health Services | 649,557 | 823,658 | 572,098 | 1,123,735 | 1,592,929 |
| Student Transportation | 4,799,101 | 6,143,664 | 5,400,070 | 8,020,710 | 9,231,292 |
| Food Service | 3,957,020 | 4,112,116 | 4,743,916 | 5,562,831 | 5,712,885 |
| Cocurricular/Extracurricular Activities | 3,380,066 | 3,735,454 | 4,160,927 | 5,913,613 | 6,938,051 |
| General Administration | 2,165,367 | 2,382,620 | 2,110,110 | 3,468,066 | 4,945,478 |
| Plant Maintenance & Operations | 7,786,941 | 8,855,035 | 8,095,333 | 11,286,673 | 13,799,015 |
| Security and Monitoring Services | 445,260 | 1,061,698 | 833,415 | 1,740,470 | 2,476,814 |
| Data Processing Services | 2,431,527 | 2,337,144 | 2,290,416 | 4,024,898 | 5,139,735 |
| Community Services | 3,559 | 1,559 | 2,161 | 10,035 | 3,906 |
| Interest on Long-term Debt | 15,723,436 | 15,527,186 | 22,683,350 | 30,500,704 | 36,266,732 |
| Bond Issuance Costs and Fees | 669,710 | 516,508 | 1,528,173 | 1,621,705 | 1,066,831 |
| Contracted Instructional Services Between Schools | - | 428,140 | 1,071,686 | 2,032,667 | - |
| Other Intergovernmental Charges | 386,807 | 491,805 | 640,764 | 855,436 | 999,841 |
| **Total Expenditures** | $ 102,149,930 | $ 117,813,186 | $ 116,096,027 | $ 188,086,589 | $ 232,301,958 |
| **Change in Net Assets** | $ 7,463,517 | $ 17,868,093 | $ 34,976,655 | $ 13,652,171 | $ 842,826 |
| **Beginning Net Assets** | $ (30,936,699) | $ (23,473,182) | $ (5,605,089) | $ (16,705,223) | $ (3,053,052) |
| **Prior Period Adjustment** | $ - | $ - | $ (46,076,789) [2] | $ - | $ - |
| **Ending Net Assets** | $ (23,473,182) | $ (5,605,089) | $ (16,705,223) | $ (3,053,052) | $ (2,210,226) |

*(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34.*
*(2) In accordance with the adoption of GASB No. 75 in 2017/18, the District must record its proportionate share of the net OPEB liability related to its contributions to TRS-Care Cost-sharing other than pension plan at the beginning of the measurement period ending August 31, 2017. See "Notes to the Financial Statement" in Appendix D hereto for more information.*

# APPENDIX B

## GENERAL INFORMATION REGARDING THE DISTRICT
## AND ITS ECONOMY

# PROSPER INDEPENDENT SCHOOL DISTRICT

## General and Economic Information

Prosper Independent School District (the "District") is located in Collin County and extending into Denton County that includes the City of Prosper, located 35 miles north of Dallas on U.S. Highway 380.

Collin County (the "County") was created in 1846 and is located in Northeast Texas immediately north and adjacent to Dallas County and approximately 15 miles from downtown Dallas.

*Source: Texas Municipal Report for Prosper ISD and Collin County.*

### Enrollment Statistics

| Year Ending 8/31 | Enrollment |
|---|---|
| 2006 | 2,129 |
| 2007 | 2,700 |
| 2008 | 2,700 |
| 2009 | 3,052 |
| 2010 | 3,583 |
| 2011 | 4,341 |
| 2012 | 4,786 |
| 2013 | 5,433 |
| 2014 | 6,459 |
| 2015 | 7,253 |
| 2016 | 8,462 |
| 2017* | 10,325 |
| 2018* | 12,447 |
| 2019* | 14,772 |
| 2020* | 17,280 |
| Current (12/4/20) | 19,233 |

**as of May*

### District Staff

| | |
|---|---|
| Teachers | 1,328 |
| Auxiliary Personnel | 221 |
| Teachers' Aides & Secretaries | 217 |
| Administrators | 90 |
| Other (Counselors, RNs, Librarians) | 460 |
| | 2,316 |

### Facilities

| Campus | Grades | Current Enrollment | Capacity | Year Built | Year of Addition/ Renovation |
|---|---|---|---|---|---|
| Baker Elementary | PK-5 | 951 | 800 | 2010 | |
| Boyer Elementary | PK-5 | 792 | 800 | 2018 | |
| Cockrell Elementary | PK-5 | 709 | 800 | 2012 | |
| Folsom Elementary | PK-5 | 734 | 800 | 2008 | |
| Furr Elementary | PK-5 | 822 | 800 | 2019 | |
| Hughes Elementary | PK-5 | 759 | 800 | 2016 | |
| Johnson Elementary | PK-5 | 703 | 800 | 2020 | |
| Light Farms Elementary | PK-5 | 845 | 800 | 2015 | |
| Rucker Elementary | PK-5 | 707 | 750 | 1996 | 2009 |
| Spradley Elementary | PK-5 | 813 | 800 | 2018 | |
| Stuber Elementary | PK-5 | 1,023 | 800 | 2019 | |
| Windsong Elementary | PK-5 | 1,012 | 800 | 2016 | |
| Hays Middle School | 6-8 | 1,392 | 1,200 | 2019 | |
| Reynolds Middle School | 6-8 | 904 | 1,200 | 2000 | 2011 |
| Rogers Middle School | 6-8 | 1,264 | 1,200 | 2009 | |
| Rushing Middle School | 6-8 | 974 | 1,200 | 2020 | |
| Prosper High School | 9-12 | 2,803 | 2,500 | 2010 | 2013-2014 |
| Rock Hill High School | 9-12 | 2,026 | 2,500 | 2020 | |

**Principal Employers within the District**

| Name of Company | Type of Business | Number of Employees |
| --- | --- | --- |
| Prosper Independent School District | Education | 2,316 |
| Kroger | Grocery Store | 500 |
| Wal Mart | Retail | 250 |
| Town of Prosper | Local Government | 200 |
| Lowe’s | Retail | 100 |
| Dick’s Field and Stream | Retail | 85 |
| Gentle Creek | Golf Course | 85 |
| Longo Toyota | Car Dealership | 75 |
| Texas Health Resources | Medical Facility | 70 |
| Go Crete | Concrete | 70 |

**Unemployment Rates**

| | November 2018 | November 2019 | November 2020 |
| --- | --- | --- | --- |
| Collin County | 3.0% | 2.9% | 6.2% |
| State of Texas | 3.5% | 3.4% | 8.0% |

*Source: Texas Workforce Commission.*

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

## Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.*

**PROSPER INDEPENDENT SCHOOL DISTRICT**
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021**
**IN THE AGGREGATE PRINCIPAL AMOUNT OF $**

**AS BOND COUNSEL** for the Prosper Independent School District (the "Issuer"), the issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, serially, all in accordance with the terms and conditions stated in the text of the Bonds.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

**BASED ON SAID EXAMINATION**, **IT IS OUR OPINION** that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by governmental immunity and general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

**APPENDIX D**

**AUDITED FINANCIAL REPORT**
**FISCAL YEAR ENDED AUGUST 31, 2020**

**PROSPER INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED AUGUST 31, 2020**

PROSPER INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2020

CERTIFICATE OF BOARD

| | | |
|---|---|---|
| Prosper Independent School District | Collin | 043-912 |
| 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) _____X_____ approved _______ disapproved for the year ended August 31, 2020 at a meeting of the Board of Trustees of such school district on the ___14th___ day of ____December___, 2020.

| | |
|---|---|
| */s/ Debra Smith* | */s/ Jim Bridges, III* |
| Signature of Board **Secretary** | Signature of Board **President** |

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

*Morgan, Davis, & Company, P.C.*
**Post Office Box 8158**
**Greenville, Texas 75404**

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information and Other Information**

## Independent Auditor's Report

Prosper Independent School District
605 East 7th Street
Prosper, Texas 75078

**Report on the Financial Statements**
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prosper Independent School District as of and for the year ended August 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

***Auditor's Responsibility***
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Prosper Independent School District as of August 31, 2020 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.

***Other Matters***
*Required Supplementary Information:*
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and the Schedules contained in Exhibits G-1, G-2, G-3, G-4, & G-5 on pages 49-55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical

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

*Other Information:*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prosper Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2 on pages 58-65, and the Schedule of Expenditures of Federal Awards on page 81, 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.

The Combining Statements for Nonmajor Governmental Funds and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements for Nonmajor Governmental Funds and Schedule of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. This 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. These schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion are fairly stated in all materials respects in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standard***
In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020 on our consideration of Prosper Independent School 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 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 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 Prosper Independent School District's internal control over financial reporting and compliance.

*/s/ Morgan, Davis & Company, P.C.*

Morgan, Davis, & Company, P.C.
Greenville, Texas

December 4, 2020

In this section of the Annual Financial and Compliance Report, we, the administrators of Prosper Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2020. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

## FINANCIAL HIGHLIGHTS

· The District's total combined net position increased by $842,826 as a result of this year's operations.

· The District’s liabilities exceeded its assets at the close of the most recent fiscal year by $(2,210,226) which represents the District’s total combined net position. Of this amount, $34,101,587 (unrestricted net position) may be used to meet the District’s ongoing obligations, and $(53,159,555) represents a negative equity in investment in capital assets net of related debt.

· As of August 31, 2020, the District’s governmental funds reported a combined fund balance of $189,019,480 compared to $220,579,955 for the last fiscal year. Included in this fiscal year fund balance is $56,974,742 of un-spend bond proceeds held in the Bond Construction Funds. The General Fund reported a fund balance of $114,241,638 this fiscal year compared to $99,462,230 the last fiscal year.

· The District’s total tax rate for the 2019-2020 school year was $ 1.56835 with $ 1.06835 for maintenance & operation and $ 0.50000 for debt service.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

## Reporting the District as a Whole

### *The Statement of Net Position and the Statement of Activities*

The analysis of the District's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

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

## Reporting the District's Most Significant Funds

### *Fund Financial Statements*

The fund financial statements begin on page 14 and provide detailed information about the most significant funds–not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESSA Title I Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two kinds of funds–governmental and proprietary–use different accounting approaches.

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

· Proprietary funds–The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities–such as the District's self-insurance programs.

**The District as Trustee**

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from $(3,053,052) last year to $(2,210,226) at August 31, 2020. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from $34,919,432 last year to $34,101,587 at August 31, 2020.

Changes in net position of the District's governmental activities were a $13,652,171 increase last year compared to a $842,826 increase at August 31, 2020.

**Table I**
**Prosper Independent School District**
**NET POSITION**

| | Governmental Activities 8/31/2020 | Governmental Activities 8/31/2019 | Net Change |
|---|---|---|---|
| Current and other assets | $227,134,596 | $247,862,197 | ($20,727,601) |
| Capital assets | 901,296,265 | 717,631,508 | 183,664,757 |
| Total assets | $1,128,430,861 | $965,493,705 | $162,937,156 |
| Deferred Outflows | $47,913,123 | $26,416,637 | $21,496,486 |
| | | | |
| Current and other liabilities | $38,499,601 | $27,104,129 | $11,395,472 |
| Long-term liabilities | 1,033,557,541 | 891,829,243 | 141,728,298 |
| Net Pension Liability (District's Share) | 39,059,118 | 29,064,502 | 9,994,616 |
| Net OPEB Liability (District's Share) | 42,630,943 | 34,471,991 | 8,158,952 |
| Total liabilities | $1,153,747,203 | $982,469,865 | $171,277,338 |
| Deferred Inflows | $24,807,007 | $12,493,529 | $12,313,478 |
| | | | |
| Net Position: | | | |
| Net Investment in Capital Assets | ($53,159,555) | ($54,349,232) | $1,189,677 |
| Restricted | 16,847,742 | 16,376,748 | 470,994 |
| Unrestricted | 34,101,587 | 34,919,432 | (817,845) |
| Total Net Position | ($2,210,226) | ($3,053,052) | $842,826 |

**Table II**
**Prosper Independent School District**
**CHANGES IN NET POSITION**

| | Governmental Activities Yr Ended 8/31/2020 | Governmental Activities Yr Ended 8/31/2019 | Net Change |
|---|---|---|---|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for Services | $10,018,869 | $10,308,375 | ($289,506) |
| Operating grants and contributions | 15,252,208 | 10,906,738 | 4,345,470 |
| General Revenues: | | | |
| Maintenance and operations taxes | 103,571,705 | 95,925,447 | 7,646,258 |
| Debt service taxes | 48,471,314 | 40,993,548 | 7,477,766 |
| State aid - formula grants | 44,158,278 | 31,920,912 | 12,237,366 |
| Grants & Contributions not restricted to specific functions | 4,222,465 | 2,218,205 | 2,004,260 |
| Investment Earnings | 2,814,594 | 6,179,823 | (3,365,229) |
| Miscellaneous | 4,635,351 | 3,285,712 | 1,349,639 |
| Total Revenue | $233,144,784 | $201,738,760 | $31,406,024 |
| | | | |
| Expenses: | | | |
| Instruction, curriculum and media services | $129,702,532 | $101,075,927 | $28,626,605 |
| Instructional and school leadership | 11,123,610 | 8,276,047 | 2,847,563 |
| Student support services | 14,126,528 | 11,717,517 | 2,409,011 |
| Child nutrition | 5,712,885 | 5,562,831 | 150,054 |
| Co curricular activities | 6,938,051 | 5,913,613 | 1,024,438 |
| General administration | 4,945,478 | 3,468,066 | 1,477,412 |
| Plant maintenance, security & data processing | 21,415,564 | 17,052,041 | 4,363,523 |
| Community services | 3,906 | 10,035 | (6,129) |
| Debt services | 37,333,563 | 32,122,409 | 5,211,154 |
| Other intergovernmental charges | 999,841 | 2,888,103 | (1,888,262) |
| Total Expenses | $232,301,958 | $188,086,589 | $44,215,369 |
| | | | |
| **Increase in net position before transfers and special items** | **$842,826** | **$13,652,171** | **($12,809,345)** |
| | | | |
| Transfers | 0 | 0 | 0 |
| Special Items | 0 | 0 | 0 |
| Net Position at Beginning of Fiscal Year | (3,053,052) | (16,705,223) | 13,652,171 |
| | | | |
| Net Position at End of Fiscal Year | ($2,210,226) | ($3,053,052) | $842,826 |

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of $189,019,480, compared to $220,579,955 for the last fiscal year. The District’s General Fund reported a fund balance increase of $14,779,408, ending the year with $114,241,638. The District’s Special Revenue Funds reported a fund balance decrease of $176,318, ending the year with $1,889,762. The District’s Debt Service Fund reported a fund balance increase of $809,614, ending the year with $14,918,267. The District’s Capital Projects Funds reported a combined fund balance decrease of $46,973,179, ending the year with $58,146,131.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2019) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

During the year ended August 31, 2020, the District invested $205,791,736 in capital assets, consisting of land purchased, construction in progress, miscellaneous facility improvements, technology, furnishings, equipment, and vehicles.

Capital asset activity for the year ended August 31, 2020 was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| Land | $82,926,659 | $15,205,168 | $0 | $98,131,827 |
| Buildings & Improvements | 347,809,491 | 182,268,209 | 0 | 530,077,700 |
| Equipment | 68,308,200 | 28,838,159 | 0 | 97,146,359 |
| Vehicles | 17,784,232 | 2,636,545 | 0 | 20,420,777 |
| Consruction in Progress | 320,873,676 | (23,156,345) | 0 | 297,717,331 |
| Totals at Historical Cost | 837,702,258 | 205,791,736 | 0 | 1,043,493,994 |
| Less accumulated depreciation for: | | | | |
| Buildings & Improvements | (79,230,090) | (13,028,156) | 0 | (92,258,246) |
| Equipment | (30,015,170) | (7,557,260) | 0 | (37,572,430) |
| Vehicles | (10,825,490) | (1,541,563) | 0 | (12,367,053) |
| Total accumulated depreciation | (120,070,750) | (22,126,979) | 0 | (142,197,729) |
| Capital Assets, Net | $717,631,508 | $183,664,757 | $0 | $901,296,265 |

**Debt:**

At year-end August 31, 2020, the District had $1,028,032,541 outstanding in bonds compared to $885,694,242 last year. Also, the District had $5,525,000 outstanding in loans compared to $6,135,000 last year. During the current fiscal year, the District issued Series 2019A, 2019B, and 2020 bonds in the total amount of $139,755,000 to finance facilities construction and furnishings. The new bonds are payable over the next 30 years at 2.00-5.00% interest.

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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2021 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2021. Amounts available for appropriation in the General Fund budget are $48,716,638. The District has added no major new programs or initiatives to the 2021 budget.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Prosper Independent School District, 605 East 7th Street, Prosper, Texas.

BASIC FINANCIAL STATEMENTS

# PROSPER INDEPENDENT SCHOOL DISTRICT
## STATEMENT OF NET POSITION
## AUGUST 31, 2020

| Data Control Codes | | Primary Government<br>Governmental Activities |
|---|---|---|
| | **ASSETS** | |
| 1110 | Cash and Cash Equivalents | $ 57,797,612 |
| 1120 | Current Investments | 153,368,876 |
| 1220 | Property Taxes - Delinquent | 830,771 |
| 1230 | Allowance for Uncollectible Taxes | (3,434) |
| 1240 | Due from Other Governments | 13,935,278 |
| 1290 | Other Receivables, Net | 830,764 |
| 1300 | Inventories | 131,319 |
| 1410 | Prepayments | 243,410 |
| | Capital Assets: | |
| 1510 | Land | 98,131,827 |
| 1520 | Buildings, Net | 437,819,454 |
| 1530 | Furniture and Equipment, Net | 59,573,929 |
| 1540 | Vehicles, Net | 8,053,724 |
| 1580 | Construction in Progress | 297,717,331 |
| 1000 | Total Assets | 1,128,430,861 |
| | **DEFERRED OUTFLOWS OF RESOURCES** | |
| 1705 | Deferred Outflow Related to TRS Pension | 26,855,654 |
| 1706 | Deferred Outflow Related to TRS OPEB | 21,057,469 |
| 1700 | Total Deferred Outflows of Resources | 47,913,123 |
| | **LIABILITIES** | |
| 2110 | Accounts Payable | 20,598,372 |
| 2140 | Interest Payable | 1,585,354 |
| 2150 | Payroll Deductions and Withholdings | 1,066,751 |
| 2160 | Accrued Wages Payable | 9,790,427 |
| 2180 | Due to Other Governments | 3,342,768 |
| 2200 | Accrued Expenses | 227,192 |
| 2300 | Unearned Revenue | 1,888,737 |
| | Noncurrent Liabilities: | |
| 2501 | Due Within One Year | 15,598,228 |
| 2502 | Due in More Than One Year | 1,017,959,313 |
| 2540 | Net Pension Liability (District's Share) | 39,059,118 |
| 2545 | Net OPEB Liability (District's Share) | 42,630,943 |
| 2000 | Total Liabilities | 1,153,747,203 |
| | **DEFERRED INFLOWS OF RESOURCES** | |
| 2605 | Deferred Inflow Related to TRS Pension | 6,364,228 |
| 2606 | Deferred Inflow Related to TRS OPEB | 18,442,779 |
| 2600 | Total Deferred Inflows of Resources | 24,807,007 |
| | **NET POSITION** | |
| 3200 | Net Investment in Capital Assets | (53,159,555) |
| 3820 | Restricted for Federal and State Programs | 55,851 |
| 3850 | Restricted for Debt Service | 15,134,298 |
| 3870 | Restricted for Campus Activities | 1,657,593 |
| 3900 | Unrestricted | 34,101,587 |
| 3000 | Total Net Position | $ (2,210,226) |

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

# PROSPER INDEPENDENT SCHOOL DISTRICT
## STATEMENT OF ACTIVITIES
## FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | 1 | 3 | 4 | 6 |
|---|---|---|---|---|---|
| | | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
| | | Expenses | Charges for Services | Operating Grants and Contributions | Primary Gov. Governmental Activities |
| | **Primary Government:** | | | | |
| | GOVERNMENTAL ACTIVITIES: | | | | |
| 11 | Instruction | $ 121,697,224 | $ 2,491,548 | $ 11,127,641 | $ (108,078,035) |
| 12 | Instructional Resources and Media Services | 2,434,592 | - | 160,791 | (2,273,801) |
| 13 | Curriculum and Instructional Staff Development | 5,570,716 | - | 229,925 | (5,340,791) |
| 21 | Instructional Leadership | 1,543,079 | - | 83,287 | (1,459,792) |
| 23 | School Leadership | 9,580,531 | - | 653,579 | (8,926,952) |
| 31 | Guidance, Counseling, and Evaluation Services | 3,302,307 | - | 213,456 | (3,088,851) |
| 33 | Health Services | 1,592,929 | - | 86,393 | (1,506,536) |
| 34 | Student (Pupil) Transportation | 9,231,292 | - | 529,727 | (8,701,565) |
| 35 | Food Services | 5,712,885 | 3,884,125 | 538,051 | (1,290,709) |
| 36 | Extracurricular Activities | 6,938,051 | 2,910,032 | 203,998 | (3,824,021) |
| 41 | General Administration | 4,945,478 | - | 256,795 | (4,688,683) |
| 51 | Facilities Maintenance and Operations | 13,799,015 | 733,164 | 400,093 | (12,665,758) |
| 52 | Security and Monitoring Services | 2,476,814 | - | 188,741 | (2,288,073) |
| 53 | Data Processing Services | 5,139,735 | - | 347,566 | (4,792,169) |
| 61 | Community Services | 3,906 | - | - | (3,906) |
| 72 | Debt Service - Interest on Long-Term Debt | 36,266,732 | - | - | (36,266,732) |
| 73 | Debt Service - Bond Issuance Cost and Fees | 1,066,831 | - | - | (1,066,831) |
| 81 | Capital Outlay | - | - | 232,165 | 232,165 |
| 99 | Other Intergovernmental Charges | 999,841 | - | - | (999,841) |
| [TP] | TOTAL PRIMARY GOVERNMENT: | $ 232,301,958 | $ 10,018,869 | $ 15,252,208 | (207,030,881) |

| Data Control Codes | | |
|---|---|---|
| | General Revenues: | |
| | Taxes: | |
| MT | Property Taxes, Levied for General Purposes | 103,571,705 |
| DT | Property Taxes, Levied for Debt Service | 48,471,314 |
| SF | State Aid - Formula Grants | 44,158,278 |
| GC | Grants and Contributions not Restricted | 4,222,465 |
| IE | Investment Earnings | 2,814,594 |
| MI | Miscellaneous Local and Intermediate Revenue | 4,635,351 |
| TR | Total General Revenues | 207,873,707 |
| CN | Change in Net Position | 842,826 |
| NB | Net Position - Beginning | (3,053,052) |
| NE | Net Position - Ending | $ (2,210,226) |

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

PROSPER INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2020

| Data Control Codes | | 10 General Fund | 50 Debt Service Fund | 60 Bond Construction |
|---|---|---|---|---|
| | **ASSETS** | | | |
| 1110 | Cash and Cash Equivalents | $ 54,419,188 | $ 50,956 | $ (28,475) |
| 1120 | Investments - Current | 65,059,622 | 14,841,304 | 56,319,197 |
| 1220 | Property Taxes - Delinquent | 569,459 | 261,312 | - |
| 1230 | Allowance for Uncollectible Taxes | (2,354) | (1,080) | - |
| 1240 | Due from Other Governments | 11,915,969 | 31,848 | 108,958 |
| 1260 | Due from Other Funds | 750 | - | 232,165 |
| 1290 | Other Receivables | 2,000 | - | - |
| 1300 | Inventories | - | - | - |
| 1410 | Prepayments | 243,410 | - | - |
| 1000 | Total Assets | $ 132,208,044 | $ 15,184,340 | $ 56,631,845 |
| | **LIABILITIES** | | | |
| 2110 | Accounts Payable | $ 890,223 | $ - | $ 6,464,689 |
| 2150 | Payroll Deductions and Withholdings Payable | 1,066,751 | - | - |
| 2160 | Accrued Wages Payable | 9,574,880 | - | - |
| 2170 | Due to Other Funds | 1,126,016 | 750 | 2,564 |
| 2180 | Due to Other Governments | 3,337,677 | 5,091 | - |
| 2200 | Accrued Expenditures | 203,730 | - | - |
| 2300 | Unearned Revenue | 1,301,998 | 47,724 | - |
| 2000 | Total Liabilities | 17,501,275 | 53,565 | 6,467,253 |
| | **DEFERRED INFLOWS OF RESOURCES** | | | |
| 2601 | Unavailable Revenue - Property Taxes | 465,131 | 212,508 | - |
| 2600 | Total Deferred Inflows of Resources | 465,131 | 212,508 | - |
| | **FUND BALANCES** | | | |
| | Restricted Fund Balance: | | | |
| 3450 | Federal or State Funds Grant Restriction | - | - | - |
| 3470 | Capital Acquisition and Contractural Obligation | - | - | 50,164,592 |
| 3480 | Retirement of Long-Term Debt | - | 14,918,267 | - |
| 3490 | Other Restricted Fund Balance | - | - | - |
| | Committed Fund Balance: | | | |
| 3510 | Construction | 50,000,000 | - | - |
| 3525 | Retirement of Loans or Notes Payable | 5,525,000 | - | - |
| 3530 | Capital Expenditures for Equipment | 10,000,000 | - | - |
| 3600 | Unassigned Fund Balance | 48,716,638 | - | - |
| 3000 | Total Fund Balances | 114,241,638 | 14,918,267 | 50,164,592 |
| 4000 | Total Liabilities, Deferred Inflows & Fund Balances | $ 132,208,044 | $ 15,184,340 | $ 56,631,845 |

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

| 60 Bond Const 2019 | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ 813,599 | $ 2,520,128 | $ 57,775,396 |
| 17,148,753 | - | 153,368,876 |
| - | - | 830,771 |
| - | - | (3,434) |
| - | 1,878,503 | 13,935,278 |
| - | - | 232,915 |
| 828,764 | - | 830,764 |
| - | 131,319 | 131,319 |
| - | - | 243,410 |
| $ 18,791,116 | $ 4,529,950 | $ 227,345,295 |
| | | |
| $ 11,980,966 | $ 634,928 | $ 19,970,806 |
| - | - | 1,066,751 |
| - | 215,547 | 9,790,427 |
| - | 232,165 | 1,361,495 |
| - | - | 3,342,768 |
| - | 23,462 | 227,192 |
| - | 539,015 | 1,888,737 |
| 11,980,966 | 1,645,117 | 37,648,176 |
| | | |
| - | - | 677,639 |
| - | - | 677,639 |
| | | |
| - | 55,851 | 55,851 |
| 6,810,150 | - | 56,974,742 |
| - | - | 14,918,267 |
| - | 1,657,593 | 1,657,593 |
| | | |
| - | 1,171,389 | 51,171,389 |
| - | - | 5,525,000 |
| - | - | 10,000,000 |
| - | - | 48,716,638 |
| 6,810,150 | 2,884,833 | 189,019,480 |
| $ 18,791,116 | $ 4,529,950 | $ 227,345,295 |

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PROSPER INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2020

| | | | |
|---|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ | 189,019,480 |
| 1 | The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position. | | 523,230 |
| 2 | Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$837,702,258, and the accumulated depreciation was \$120,070,750. In addition, long-term liabilities, including bonds payable of \$885,694,243, and loans payable of \$6,135,000, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$1,484,846 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), and long-term debt in the governmental activities, is to increase (decrease) net position. | | (175,682,581) |
| 3 | Current year capital outlays of \$205,791,736, and long-term debt principal payments of \$11,485,652 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$367,091, amortization of bond premiums of \$3,151,782, and interest payable of \$100,508 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position. | | 220,695,753 |
| 4 | Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$677,639 as revenue, eliminating interfund transactions, reclassifying net bond proceeds of \$156,732,823, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | (156,055,184) |
| 5 | The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (22,126,979) |
| 6 | The District is required to recognize its proportionate share of the net pension liability required by GASB 68 in the amount of \$39,059,118, a deferred resource inflow in the amount of \$6,364,228, and a deferred resource outflow in the amount of \$26,855,654. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position. | | (18,567,692) |
| 7 | The District is required to recognize its proportionate share of the OPEB liability required by GASB 75 in the amount of \$42,630,943, a deferred resource inflow in the amount of \$18,442,779, a deferred resource outflow in the amount of of \$21,057,469. The net effect of including the net OPEB liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position. | | (40,016,253) |
| 19 | **Net Position of Governmental Activities** | $ | (2,210,226) |

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

PROSPER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | 10 General Fund | 50 Debt Service Fund | 60 Bond Construction |
|---|---|---|---|---|
| | REVENUES: | | | |
| 5700 | Total Local and Intermediate Sources | $ 111,541,783 | $ 50,100,940 | $ 462,919 |
| 5800 | State Program Revenues | 51,730,715 | 247,001 | - |
| 5900 | Federal Program Revenues | 1,403,279 | - | - |
| 5020 | Total Revenues | 164,675,777 | 50,347,941 | 462,919 |
| | EXPENDITURES: | | | |
| | Current: | | | |
| 0011 | Instruction | 95,799,456 | - | - |
| 0012 | Instructional Resources and Media Services | 2,049,705 | - | - |
| 0013 | Curriculum and Instructional Staff Development | 4,652,181 | - | - |
| 0021 | Instructional Leadership | 1,192,104 | - | - |
| 0023 | School Leadership | 7,678,049 | - | - |
| 0031 | Guidance, Counseling, and Evaluation Services | 2,599,115 | - | - |
| 0033 | Health Services | 1,241,954 | - | - |
| 0034 | Student (Pupil) Transportation | 6,382,949 | - | - |
| 0035 | Food Services | - | - | - |
| 0036 | Extracurricular Activities | 3,888,322 | - | - |
| 0041 | General Administration | 4,037,671 | - | - |
| 0051 | Facilities Maintenance and Operations | 12,222,303 | - | - |
| 0052 | Security and Monitoring Services | 2,091,927 | - | - |
| 0053 | Data Processing Services | 4,207,561 | - | - |
| 0061 | Community Services | 3,906 | - | - |
| | Debt Service: | | | |
| 0071 | Principal on Long-Term Debt | 610,000 | 10,875,552 | - |
| 0072 | Interest on Long-Term Debt | 189,325 | 39,495,872 | - |
| 0073 | Bond Issuance Cost and Fees | - | 1,066,831 | - |
| | Capital Outlay: | | | |
| 0081 | Facilities Acquisition and Construction | - | - | 100,859,655 |
| | Intergovernmental: | | | |
| 0099 | Other Intergovernmental Charges | 999,841 | - | - |
| 6030 | Total Expenditures | 149,846,369 | 51,438,255 | 100,859,655 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | 14,829,408 | (1,090,314) | (100,396,736) |
| | OTHER FINANCING SOURCES (USES): | | | |
| 7911 | Capital Related Debt Issued | - | 166,257 | 139,754,930 |
| 7915 | Transfers In | - | - | - |
| 7916 | Premium or Discount on Issuance of Bonds | - | 1,733,671 | 15,245,070 |
| 8911 | Transfers Out (Use) | (50,000) | - | (4,438,672) |
| 7080 | Total Other Financing Sources (Uses) | (50,000) | 1,899,928 | 150,561,328 |
| 1200 | Net Change in Fund Balances | 14,779,408 | 809,614 | 50,164,592 |
| 0100 | Fund Balance - September 1 (Beginning) | 99,462,230 | 14,108,653 | - |
| 3000 | Fund Balance - August 31 (Ending) | $ 114,241,638 | $ 14,918,267 | $ 50,164,592 |

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

| 60 Bond Const 2019 | Other Governmental Funds | Total Governmental Funds |
|---|---|---|
| $ 1,404,109 | $ 6,420,973 | $ 169,930,724 |
| - | 2,183,026 | 54,160,742 |
| - | 2,403,375 | 3,806,654 |
| 1,404,109 | 11,007,374 | 227,898,120 |
| | | |
| - | 3,806,696 | 99,606,152 |
| - | - | 2,049,705 |
| - | 9,489 | 4,661,670 |
| - | - | 1,192,104 |
| - | - | 7,678,049 |
| - | - | 2,599,115 |
| - | - | 1,241,954 |
| - | - | 6,382,949 |
| - | 5,134,625 | 5,134,625 |
| - | 1,936,067 | 5,824,389 |
| - | - | 4,037,671 |
| - | - | 12,222,303 |
| - | - | 2,091,927 |
| - | - | 4,207,561 |
| - | - | 3,906 |
| | | |
| - | - | 11,485,552 |
| - | - | 39,685,197 |
| - | - | 1,066,831 |
| | | |
| 99,005,749 | 4,321,618 | 204,187,022 |
| | | |
| - | - | 999,841 |
| 99,005,749 | 15,208,495 | 416,358,523 |
| (97,601,640) | (4,201,121) | (188,460,403) |
| | | |
| - | - | 139,921,187 |
| 6,643,899 | 50,000 | 6,693,899 |
| - | - | 16,978,741 |
| - | (2,205,227) | (6,693,899) |
| 6,643,899 | (2,155,227) | 156,899,928 |
| (90,957,741) | (6,356,348) | (31,560,475) |
| 97,767,891 | 9,241,181 | 220,579,955 |
| | | |
| $ 6,810,150 | $ 2,884,833 | $ 189,019,480 |

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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, 2020

| | | |
|---|---|---|
| **Total Net Change in Fund Balances - Governmental Funds** | $ | (31,560,475) |
| The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position. | | 123,906 |
| Current year capital outlays of $205,791,736, and long-term debt principal payments of $11,485,652 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of $367,091, amortization of bond premiums of $3,151,782, and interest payable of $100,508 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position. | | 220,695,753 |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue by $585,996 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying net bond proceeds of $156,732,823 and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | (157,318,819) |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. | | (22,126,979) |
| Current year changes due to GASB 68 increased revenues in the amount of $4,650,792, but also increased expenses in the amount of $11,204,601. The impact of these items is to increase (decrease) the change in net position. | | (6,553,809) |
| Current year changes due to GASB 75 increased revenues in the amount of $1,014,763, but also increased expenses in the amount of $3,431,514. The impact of these items is to increase (decrease) the change in net position. | | (2,416,751) |
| **Change in Net Position of Governmental Activities** | $ | 842,826 |

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

EXHIBIT D-1

PROSPER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2020

| | Governmental Activities - Internal Service Fund |
|---|---|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | $ 22,216 |
| Due from Other Funds | 1,128,580 |
| Total Assets | 1,150,796 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 627,566 |
| Total Liabilities | 627,566 |
| NET POSITION | |
| Unrestricted Net Position | 523,230 |
| Total Net Position | $ 523,230 |

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

EXHIBIT D-2

PROSPER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

| | Governmental Activities - Internal Service Fund |
|---|---|
| OPERATING REVENUES: | |
| Local and Intermediate Sources | $ 602,577 |
| Total Operating Revenues | 602,577 |
| OPERATING EXPENSES: | |
| Other Operating Costs | 478,671 |
| Total Operating Expenses | 478,671 |
| Operating Income | 123,906 |
| Total Net Position - September 1 (Beginning) | 399,324 |
| Total Net Position - August 31 (Ending) | $ 523,230 |

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

# PROSPER INDEPENDENT SCHOOL DISTRICT
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## FOR THE YEAR ENDED AUGUST 31, 2020

| | Governmental Activities - Internal Service Fund |
|---|---|
| Cash Flows from Operating Activities: | |
| Cash Received from User Charges | $ 350,926 |
| Cash Payments for Insurance Claims | (340,018) |
| Net Cash Provided by Operating Activities | 10,908 |
| Net Increase in Cash and Cash Equivalents | 10,908 |
| Cash and Cash Equivalents at Beginning of Year | 11,308 |
| Cash and Cash Equivalents at End of Year | $ 22,216 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income: | $ 123,906 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Decrease (increase) in Receivables | (251,651) |
| Increase (decrease) in Accounts Payable | 138,653 |
| Net Cash Provided by Operating Activities | $ 10,908 |

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

EXHIBIT E-1

PROSPER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2020

| | Agency Fund |
|---|---|
| ASSETS | |
| Cash and Cash Equivalents | $ 65,737 |
| Total Assets | $ 65,737 |
| LIABILITIES | |
| Due to Student Groups | $ 65,737 |
| Total Liabilities | $ 65,737 |

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

## I. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Prosper Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. 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. 76, 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.

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

*Other Post-Employment Benefits*. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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.

Prosper Independent School District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. For investment pools, the District's investments are accounted for using the cost amortization method.

### A. **Reporting Entity**

The Board of Trustees is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *"The Financial Reporting Entity,"* There are no component units included within the reporting entity.

### B. **Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Prosper Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

**D. Fund Accounting**

The District reports the following major governmental funds:

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

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

3. **Bond Construction Fund** – The District accounts for bond financial resources to be used for the acquisition, renovation, or construction of major capital projects.

4. **Bond Construction 2019** – The District accounts for 2019 bond financial resources to be used for the acquisition, renovation, or construction of major capital projects.

Additionally, the District reports the following fund types:

Governmental Funds:

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

Proprietary Funds:

6. **Internal Service Funds –** Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the Workers Comp Self Insurance Fund.

Fiduciary Funds:

6. **Agency Funds –** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.

**E. <u>Encumbrance Accounting</u>**

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

**F. <u>Other Accounting Policies</u>**

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

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

3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

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4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| Asset Classification | Useful Life |
|---|---|
| Buildings | 15-50 years |
| Building Improvements | 15-50 years |
| Vehicles & Buses | 5-10 years |
| Equipment | 5-7 years |

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

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

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

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

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

Restricted for Campus Activities is the component of net position that is restricted for campus activities.

Restricted for Scholarships is the component of net position that is restricted for scholarships.

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

Fund balances on the governmental funds' *Balance Sheet* include the following:

Non-spendable fund balance is the portion of the gross fund balance that is not expendable because it is either not in spendable form or is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts restricted for a specific purpose by the provider (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects bond funds are restricted by the bondholders for the specific purpose of capital projects and capital outlays. Federal & State grant resources are restricted pursuant to the mandates of the granting agency.

Committed fund balance is that portion of fund balance that is committed to a specific purpose by the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by Board action. These amounts cannot be used for any other purpose unless the Board removes or changes the constraint by exercising the same type of action originally used to commit the funds.

Unassigned fund balance is the difference between the total fund balance and the total of the non-spendable, restrict, and committed fund balances and can be utilized for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

8. When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, or unassigned fund balances are available, the District considers amounts to have been spent first from committed funds, then unassigned funds, as need, unless the Board of Trustees has provided otherwise it its commitment actions.

9. In addition to assets, the statement of financial position 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 and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Certain deferred charges related to TRS pension and other post- employment benefits are reported as deferred outflows of resources on the government-wide statement of net position.

10. In addition to liabilities, the statement of financial position 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 so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Certain deferred charges related to TRS pension and other post-employment benefits are reported as deferred inflows on the government-wide statement of net position.

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

## II. STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

### A. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A

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

A reconciliation of fund balances for both appropriated budget & non-appropriated budget special revenue funds is as follows:

| | |
|---|---|
| Appropriated Budget Funds - Food Service | $55,851 |
| Nonappropriated Budget Funds-Campus Activity Funds | 1,657,593 |
| All Special Revenue Funds | $1,713,444 |

## III. DETAILED NOTES ON ALL FUNDS & ACCOUNT GROUPS

### Note A. DEPOSITS AND INVESTMENTS

The District's funds must be deposited under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2020, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was $36,685,876 in the depository bank, $21,111,736 in a nondepository bank, $59,894,611 in Texpool investment accounts, $73,467,950 in Lone Star investment accounts, and $20,006,316 in Texas FIT investment accounts. At August 31, 2020 and during the year then ended, the District's combined deposits were fully insured by FDIC insurance or collateralized with securities held by the District's agent bank in the District's name, or by letters of credit.

Depository information required to be reported to the Texas Education Agency is as follows:

a. Depository: Farmers Bank & Trust, Prosper, Texas

b. The highest combined balance of cash, savings, and time deposits accounts amounted to $50,566,558, and occurred during the month of January 2020.

c. The market value of securities pledged as of the date of the highest combined balance on deposit was $54,454,019.

d. Total amount of FDIC coverage at the time of the highest combined balance was $302,097.

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

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

The District has the following recurring fair value measurements as of August 31, 2020:

Cash & Cash Equivalents of $57,797,612 are valued using quoted market prices (Level 1 inputs)
Investments in Texpool accounts of $59,894,611 are valued using quoted market prices (Level 1 inputs).
Investments in Lone Star accounts of $73,467,950 are valued using quoted market prices (Level 1 inputs).
Investments in Texas FIT accounts of $20,006,316 are valued using quoted market prices (Level 1 inputs).

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

The **Public Funds Investment Act** (PFIA) (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy, which must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements, and certain other investments. The investments owned at fiscal year-end are held by the District or its agent in the District's name.

In compliance with the PFIA, the District has adopted a deposit and investment policy, which address the following risks:

<u>Credit Risk</u> is the risk that a security issuer may default on an interest or principal payment. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by nationally recognized agencies such as Standards and Poor's (S&P) or Moody's Investor Service.

<u>Custodial Credit Risk</u> is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the District's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The District's funds are deposited and invested under terms of a depository contract with amounts greater that the FDIC coverage protected by approved pledged securities held on behalf of the District.

<u>Concentration of Credit Risk</u> is the risk associated with holding investments that are not pools and full faith credit securities. These risks are controlled by limiting the percentages if these investments in the District's portfolio.

<u>Interest Rate Risk</u> is the risk that interest rates will rise and an investment in a fixed-income security will decrease in value. Interest rate risk is reduced by diversifying, investing in securities with different durations, and laddering maturity dates. The District manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

<u>Foreign Currency Risk</u> is the potential for loss due to fluctuations in exchange rates. The District's policy does not allow for any direct foreign investments, and therefore the District is not exposed to foreign currency risk.

## Note B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The assessed value of the roll as of the end of the fiscal year was $9,694,457,179. The tax rates levied for the fiscal year ended August 31, 2020, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $1.06835 and $0.50000 per $100 valuation, respectively, for a total of $1.56835 per $100 valuation. Current year tax collections for the period ended August 31, 2020, were 102.16% of the levy and 100.45% in the prior year.

## Note C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

## Note D. RECEIVABLES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Available School Fund.

Receivables due from other governments as of August 31, 2020 are as follows:

| Fund | State Grants | Federal Grants | Other Governments | Totals |
|---|---|---|---|---|
| General Fund | $11,847,871 | $0 | $68,098 | $11,915,969 |
| Special Revenue Funds | 365,912 | 413,415 | 0 | 779,327 |
| Debt Service Funds | 0 | 0 | 31,848 | 31,848 |
| Capital Projects Funds | 0 | 0 | 1,208,134 | 1,208,134 |
| Totals | $12,213,783 | $413,415 | $1,308,080 | $13,935,278 |

**Note E. INTERFUND TRANSACTIONS**

Interfund balances at August 31, 2020, consisted of the following individual receivables & payables:

| | |
|---|---|
| **Due to General Fund from:** | |
| Debt Service Fund | $750 |
| Total Due to General Fund from Other Funds | $750 |
| **Due to Bond Construction Fund from:** | |
| Nonmajor Governmental Funds | $232,165 |
| Total Due to Bond Construction Fund from Other Funds | $232,165 |
| **Due to Internal Service Fund from:** | |
| General Fund | $1,126,016 |
| Bond Construction Fund | 2,564 |
| Total Due to Internal Service Fund from Other Funds | $1,128,580 |

Interfund transfers for the year ended August 31, 2020, consisted of the following individual amounts:

| | |
|---|---|
| **Transfers to Non-Major Governmental Funds from:** | |
| General Fund | $50,000 |
| Total Transfered to Non-Major Funds from Other Funds | $50,000 |
| **Transfers to 2019 Bond Construction Fund from:** | |
| Bond Construction Fund | $4,438,672 |
| Nonmajor Governmental Funds | 2,205,227 |
| Total Transfered to 2019 Bond Construction from Other Funds | $6,643,899 |

**Note F. CAPITAL ASSETS**

A summary of changes in capital assets for the year ended August 31, 2020 is as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance |
|---|---|---|---|---|
| Land | $82,926,659 | $15,205,168 | $0 | $98,131,827 |
| Buildings & Improvements | 347,809,491 | 182,268,209 | 0 | 530,077,700 |
| Equipment | 68,308,200 | 28,838,159 | 0 | 97,146,359 |
| Vehicles | 17,784,232 | 2,636,545 | 0 | 20,420,777 |
| Consruction in Progress | 320,873,676 | (23,156,345) | 0 | 297,717,331 |
| Totals at Historical Cost | 837,702,258 | 205,791,736 | 0 | 1,043,493,994 |
| Less accumulated depreciation for: | | | | |
| Buildings & Improvements | (79,230,090) | (13,028,156) | 0 | (92,258,246) |
| Equipment | (30,015,170) | (7,557,260) | 0 | (37,572,430) |
| Vehicles | (10,825,490) | (1,541,563) | 0 | (12,367,053) |
| Total accumulated depreciation | (120,070,750) | (22,126,979) | 0 | (142,197,729) |
| Capital Assets, Net | $717,631,508 | $183,664,757 | $0 | $901,296,265 |

Depreciation expense for the current year was charged to governmental functions as follows:

| | |
|---|---|
| 11 Instruction | $12,762,960 |
| 12 Instructional Resources & Media Services | 205,854 |
| 13 Curriculum & Instructional Staff Development | 617,562 |
| 21 Instructional Leadership | 205,854 |
| 23 School Leadership | 1,029,271 |
| 31 Guidance, Counseling, & Evaluation Services | 411,708 |
| 33 Health Services | 205,854 |
| 34 Student (Pupil) Transporation | 2,364,980 |
| 35 Food Services | 617,562 |
| 36 Cocurricular/Extracurricular Activities | 823,417 |
| 41 General Administration | 617,562 |
| 51 Plant Maintenance & Operations | 1,440,979 |
| 52 Security & Monitoring Services | 205,854 |
| 53 Data Processing Services | 617,562 |
| Total Depreciation Expense | $22,126,979 |

**Note G. LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended August 31, 2020 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due within One Year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| General Obligation Bonds | $784,243,637 | $139,755,000 | ($10,875,652) | $913,122,985 | $14,973,228 |
| Accumulated Accretion on CABs | 7,427,281 | 768,791 | (1,135,882) | 7,060,190 | |
| Unamortized Bond Premiums on CABs | 5,790,117 | 0 | (993,467) | 4,796,650 | |
| Unamortized Bond Premiums on GOBs | 88,233,208 | 16,977,823 | (2,158,315) | 103,052,716 | |
| Toal Bonds Payable, Government-Wide | $885,694,243 | $157,501,614 | ($15,163,316) | $1,028,032,541 | |
| Loans | 6,135,000 | 0 | (610,000) | 5,525,000 | 625,000 |
| Total Governmental Activities | $891,829,243 | $157,501,614 | ($15,773,316) | $1,033,557,541 | $15,598,228 |

**Bonds**

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

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2020.

A summary of changes in bonds for the year ended August 31, 2020 is as follows:

| Description | Interest Rates Payable | Amounts of Original Issue | Interest Current Year | Beginning Amounts Outstanding 9/01/19 | Issued | Retired | Ending Amounts Outstanding 8/31/20 |
|---|---|---|---|---|---|---|---|
| Capital Appreciation Bonds-Series 2002 | 5.13-5.72% | $943,041 | $1,401,983 | $367,878 | $0 | ($68,017) | $299,861 |
| Capital Appreciation Bonds-Series 2011 | 3.00-3.38% | 96,165 | 727,365 | 96,165 | 0 | (42,635) | 53,530 |
| Unltd Tax Refunding Bonds-Series 2012 | 2.00-3.00% | 6,615,000 | 130,450 | 4,920,000 | 0 | (325,000) | 4,595,000 |
| Capital Appreciation Bonds-Series 2012 | 2.75-2.85% | 1,799,594 | 0 | 1,799,594 | 0 | 0 | 1,799,594 |
| Unltd Tax Bldg & Refunding Bonds-Series 2014 | 2.00-4.00% | 32,180,000 | 1,160,113 | 29,705,000 | 0 | (755,000) | 28,950,000 |
| Unltd Tax Refunding Bonds-Series 2014 | 3.50-5.00% | 43,480,000 | 1,974,050 | 43,480,000 | 0 | 0 | 43,480,000 |
| Unltd Tax Refunding Bonds-Series 2015 | 2.00-5.00% | 158,565,000 | 6,262,050 | 149,635,000 | 0 | (3,830,000) | 145,805,000 |
| Unltd Tax Building Bonds-Series 2016 | 2.00-5.00% | 68,465,000 | 2,848,300 | 65,985,000 | 0 | (1,235,000) | 64,750,000 |
| Unltd Tax Refunding Bonds-Series 2016 | 2.00-5.00% | 16,910,000 | 524,925 | 15,945,000 | 0 | (320,000) | 15,625,000 |
| Unltd Tax Building Bonds-Series 2017 | 2.00-5.00% | 112,350,000 | 5,319,350 | 112,005,000 | 0 | (955,000) | 111,050,000 |
| Unltd Tax Building Bonds-Series 2018 | 3.00-5.00% | 177,015,000 | 8,517,100 | 177,015,000 | 0 | (110,000) | 176,905,000 |
| Unltd Tax Building Bonds-Series 2019 | 3.00-5.00% | 176,455,000 | 8,221,100 | 176,455,000 | 0 | (2,780,000) | 173,675,000 |
| Unltd Tax Refunding Bonds-Series 2019 | 3.00-5.00% | 6,900,000 | 309,250 | 6,835,000 | 0 | 0 | 6,835,000 |
| Unltd Tax Building Bonds-Series 2019A | 4.00-5.00% | 45,015,000 | 1,424,837 | 0 | 45,015,000 | (455,000) | 44,560,000 |
| Unltd Tax Building Bonds-Series 2019B | 2.00% | 50,000,000 | 675,000 | 0 | 50,000,000 | | 50,000,000 |
| Unltd Tax Building Bonds-Series 2020 | 4.00-5.00% | 44,740,000 | 0 | 0 | 44,740,000 | 0 | 44,740,000 |
| Total General Obligation Bonds | | | $39,495,873 | $784,243,637 | $139,755,000 | ($10,875,652) | $913,122,985 |
| Accumulated Accretion on CABs | | | | 7,427,281 | 768,791 | (1,135,882) | 7,060,190 |
| Unamortized Bond Premiums on CABs | | | | 5,790,117 | 0 | (993,467) | 4,796,650 |
| Unamortized Bond Premiums on GOBs | | | | 88,233,208 | 16,977,823 | (2,158,315) | 103,052,716 |
| **Total Bonds Payable, Government-Wide Financials** | | | | **$885,694,243** | **$157,501,614** | **($15,163,316)** | **$1,028,032,541** |

Debt service requirements for bonds are as follows:

| | Bonds | | |
|---|---|---|---|
| Year Ending August 31, | Principal | Interest | Total Requirements |
| 2021 | $14,973,228 | $41,632,610 | $56,605,838 |
| 2022 | 16,261,026 | 41,072,387 | 57,333,413 |
| 2023 | 17,603,898 | 39,718,364 | 57,322,262 |
| 2024 | 18,452,272 | 38,864,016 | 57,316,288 |
| 2025 | 19,356,541 | 37,950,296 | 57,306,837 |
| 2026-2030 | 112,572,978 | 173,950,238 | 286,523,216 |
| 2031-2035 | 146,018,042 | 140,504,717 | 286,522,759 |
| 2036-2040 | 181,880,000 | 104,643,156 | 286,523,156 |
| 2041-2045 | 217,960,000 | 59,033,988 | 276,993,988 |
| 2046-Maturity | 168,045,000 | 12,848,400 | 180,893,400 |
| Total Bonds | $913,122,985 | $690,218,172 | $1,603,341,157 |

**Loans**

A summary of changes in loans for the year ended August 31, 2020 is as follows:

| Date of Issue/ Maturity | Purpose/Lawful Authority | Fund Payable From/Interest Rate | Current Year Interest | Beginning Balance | Amount Issued | Amount Retired | Ending Balance |
|---|---|---|---|---|---|---|---|
| 09/13-08/28 | Maintenance Tax/ TEC 45.108 | General/2.00-3.50% | $189,325 | $6,135,000 | $0 | ($610,000) | $5,525,000 |
| Totals | | | $189,325 | $6,135,000 | $0 | ($610,000) | $5,525,000 |

Debt service requirements for loans are as follows:

| | Loans | | |
|---|---|---|---|
| Year Ending August 31, | Principal | Interest | Total Requirements |
| 2021 | $625,000 | $174,075 | $799,075 |
| 2022 | 640,000 | 158,450 | 798,450 |
| 2023 | 655,000 | 142,450 | 797,450 |
| 2024 | 675,000 | 122,800 | 797,800 |
| 2025 | 695,000 | 102,550 | 797,550 |
| 2026-Maturity | 2,235,000 | 158,200 | 2,393,200 |
| Totals | $5,525,000 | $858,525 | $6,383,525 |

**Note H. DUE TO OTHER GOVERNMENTS**

As of August 31, 2020, the District owed $3,337,677 for 2019-2020 state foundation revenue settle-up with the Texas Education Agency. The District also owed $5,101 for 2019-2020 existing debt allotment revenue settle-up with TEA. The Texas Education Agency will deduct these amounts from the District’s 2020-2021 state revenues.

**Note I. UNEARNED REVENUE & UNAVAILABLE REVENUE**

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2020 consisted of the following:

| | General Fund | Special Revenue Fund | Debt Service Fund | Totals |
|---|---|---|---|---|
| Unearned Revenue: | | | | |
| Property Tax Revenue | $101,974 | $0 | $47,724 | $149,698 |
| Mustang Lake Revenue | 1,200,024 | 0 | 0 | 1,200,024 |
| Local Breakfast & Lunch Revenue | 0 | 435,211 | 0 | 435,211 |
| Special Ed Fiscal Support Revenue | 0 | 103,804 | 0 | 103,804 |
| Total Unearned Revenue | $1,301,998 | $539,015 | $47,724 | $1,888,737 |
| Unavailable Revenue: | | | | |
| Property Tax Revenue | $465,131 | $0 | $212,508 | $677,639 |
| Total Unavailable Revenue | $465,131 | $0 | $212,508 | $677,639 |

**Note J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

| | General Fund | Special Revenue Funds | Debt Service Fund | Capital Projects Funds | Totals |
|---|---|---|---|---|---|
| Property Taxes | $105,887,417 | $0 | $49,444,916 | $0 | $155,332,333 |
| Penalties, Interest, & Other Tax Related Income | 862,235 | 0 | 351,970 | 0 | 1,214,205 |
| Investment Income | 1,427,229 | 0 | 304,054 | 1,083,311 | 2,814,594 |
| Tuition | 423,325 | 0 | 0 | 0 | 423,325 |
| Rent | 733,164 | 0 | 0 | 0 | 733,164 |
| Gifts & Bequests | 550,722 | 0 | 0 | 0 | 550,722 |
| Food Service Sales | 0 | 3,884,125 | 0 | 0 | 3,884,125 |
| Athletics | 437,335 | 0 | 0 | 0 | 437,335 |
| Co-curricular | 500 | 2,472,198 | 0 | 0 | 2,472,698 |
| Other | 1,219,856 | 0 | 0 | 848,367 | 2,068,223 |
| Totals | $111,541,783 | $6,356,323 | $50,100,940 | $1,931,678 | $169,930,724 |

**Note K. RISK MANAGEMENT**

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

**Health Care Coverage**

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees. The District contributed $500 per month per enrolled employee, which includes $75 per month which is reimbursed by the State of Texas to the Plan. Employees, at their option, authorized payroll withholdings to pay the additional cost of the premiums for themselves and their dependents.

**Workers Compensation Coverage**

The District was self-funded for workers compensation insurance and has an interlocal agreement with Claims Administration Services, Inc. (CAS) and Workers Comp Solutions to serve as the District's third-party administrators. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. The third-party administrators obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2020, to $350,000 for any individual participant. The liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information obtained prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the 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 claims liability does not necessarily result in an exact amount. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

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

| | Year Ended August 31, 2019 | Year Ended August 31, 2020 |
|---|---|---|
| Unpaid claims, beginning of fiscal year | $437,944 | $488,913 |
| Incurred claims (including IBNR's) | 490,053 | 478,671 |
| Claim payments | (439,084) | (340,018) |
| Unpaid claims, end of fiscal year | $488,913 | $627,566 |

**Litigation and Contingencies**

The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

**State and Federal Programs**

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2020 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Construction Commitments**

The District was obligated at August 31, 2020, under contracts for construction of various construction projects. The construction in progress for these projects totaled $297,717,331 as of August 31, 2020, including retainage payable for these projects totaled $13,434,517. The outstanding construction commitments associated with these projects including retainage payable totaled approximately $46,652,094 as of August 31, 2020.

**Note L. DEFINED BENEFIT PENSION PLAN**

***Plan Description***. Prosper Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) 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.

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

***Pension Plan Fiduciary Net Position.*** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at http://www.trs.texas.gov; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2019 Comprehensive Annual Financial Report by TRS provides the following information regarding components of the Net Pension Liability of the Pension plan as of August 31, 2019:

| Net Pension Liability | Total |
|---|---|
| Total Pension Liability | $ 209,961,325,288 |
| Less: Plan Fiduciary Net Position | 157,978,199,075 |
| Net Pension Liability | $ 51,983,126,213 |
| **Net position as a percentage of total pension liability** | **75.24%** |

***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 benefits are established or amended under the authority of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the Texas Government Code, Title 8, Subtitle C. The Board of Trustees does not have the authority to establish or amend benefits. State law requires the plan to be actuarially sound in order for the Legislature to consider a benefit enhancement, such as supplemental payment to the retirees. 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. In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (SB12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. These increases immediately made the pension fund actuarially sound and the legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 received an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or $2,000, whichever was less.

***Contributions.*** Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same. Senate Bill 12 in the 86th Legislature set higher contribution rates for fiscal year 2020 and fiscal year 2021. Beginning September 1, 2019, all employers are required to pay the Public Education Employer contribution of 1.5%. This "surcharge" was previously only charged to employers not participating in social security. Contribution Rates can be found in the TRS 2019 CAFR, Note 11, on page 76.

**Contribution Rates**

| | **2019** | **2020** |
|---|---|---|
| Member | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 7.5% |
| Employers | 6.8% | 7.5% |

| | |
|---|---|
| District's 2020 FY Employer Contributions | $ 3,039,134 |
| District's 2020 FY Member Contributions | $ 7,759,747 |
| Measurement Year NECE On-Behalf Contributions | $ 4,239,346 |

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (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 a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

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

- 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.
- Employers must contribute 1.5% of the member's salary ("Public Education Employer Surcharge").

***Actuarial Methods and Assumptions.*** The total pension liability in the August 31, 2019 actuarial valuation was determined using the following assumptions:

| | |
|---|---|
| Valuation Date | August 31, 2018 rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Single Discount Rate | 7.25% |
| Long-term Expected Rate | 7.25% |
| Municipal Bond Rate as of August, 2019 | 2.63% |
| Last year ending August 31 in Projection Period (100 years) | 2116 |
| Inflation | 2.30% |
| Salary Increases | 3.05% to 9.05% including inflation |
| Payroll Growth Rate | 3.00% |
| Ad hoc Post Employment Benefit Changes | None |

The actuarial methods and assumptions are primarily based on a study of actual experience for the three-year period ending August 31, 2018, and were adopted in July 2018. The active mortality rates were based on 90% of the RP 2014 Employee Mortality Tables for males and females with full generational mortality. The post-retirement mortality rates for health lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables with full generational projection using the ultimate improvement rates from the most recently published projection scale UMP.

***Discount Rate.*** The single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the statutorily required rates set by the Legislature during the 2019 legislative session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. 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 projected future benefit payment 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 expected long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on Pension Plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, not 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 class included in the systems target asset allocation as of August 31, 2019 are summarized below:

| Asset Class | FY 2019 Target Allocation* | New Target Allocation** | Long-Term Expected Geometric Real Rate of Return*** |
|---|---|---|---|
| **Global Equity** | | | |
| USA | 18.00% | 18.00% | 6.40 % |
| Non-U.S. Developed | 13.00% | 13.00% | 6.30% |
| Emerging Markets | 9.00% | 9.00% | 7.30% |
| Directional Hedge Funds | 4.00% | 0.00% | 0.00% |

| | | | |
|---|---|---|---|
| Private Equity | 13.00% | 14.00% | 8.40% |
| **Stable Value** | | | |
| U.S. Treasuries**** | 11.00% | 16.00% | 3.10% |
| Stable Value Hedge Funds | 4.00% | 5.00% | 4.50% |
| Absolute Return (Including Credit Sensitive Investments) | 0.00% | 0.00% | 0.00% |
| **Real Return** | | | |
| Global Inflation Linked Bonds**** | 3.00% | 0.00% | 0.00% |
| Real Estate | 14.00% | 15.00% | 8.50% |
| Energy, Natural Resources and Infrastructure | 5.00% | 6.00% | 7.30% |
| Commodities | 0.00% | 0.00% | 0.00% |
| **Risk Parity** | | | |
| Risk Parity | 5.00% | 8.00% | 5.8%/6.5%***** |
| Asset Allocation Leverage Cash | 1.00% | 2.00% | 2.50% |
| Asset Allocation Leverage | 0.0 | (6.00) | 2.70 |
| **Expected Return** | | | **7.23%** |

* *FY 2019 Target Allocations are based on the Strategic Asset Allocation dated 10/1/2018*

** *New target allocation based on the Strategic Asset Allocation dated 10/1/2019*

*** *10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%*

**** *New Target Allocation Groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds*

*****5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility*

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the 2019 Net Pension Liability.

| | 1% Decrease in Discount Rate (6.25%) | Current Single Discount Rate (7.25%) | 1% Increase in Discount Rate (8.25%) |
|---|---|---|---|
| District's proportionate share of the net pension liability: | $ 60,039,538 | $ 39,059,118 | $ 22,060,928 |

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2020, Prosper Independent School District reported a liability of $39,059,118 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Prosper Independent School District. The amount recognized by Prosper Independent School 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 Prosper Independent School District were as follows:

| | |
|---|---|
| District's Proportionate share of the collective net pension liability | $ 39,059,118 |
| State's proportionate share that is associated with the District | 58,373,725 |
| Total | $97,432,843 |

The net pension liability was measured as of August 31, 2019 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 portion 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, 2018 through August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.000751380698% compared to 0.000528038168% at August 31, 2018. This was an increase of 0.000223342530%.

**Changes Since the Prior Actuarial Valuation.** Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The Net Pension Liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2019 was developed using a roll-forward method from the August 31, 2018 valuation.
- The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of Senate Bill 3 by the 2019 Texas Legislature, an assumption has been made about how this would

impact future salaries. It is assumed that eligible active members will each receive a $2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

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

For the year ended August 31, 2020, Prosper Independent School District recognized pension expense of $9,169,690 and revenue of $9,169,690 for support provided by the State in the Government-Wide Statement of Activities.

At August 31, 2020, Prosper Independent School 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: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual actuarial experience | $ 164,083 | $ 1,356,195 |
| Changes in actuarial assumptions | 12,118,057 | 5,007,754 |
| Net Difference between projected and actual investment earnings | 392,198 | |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 11,142,182 | 279 |
| Contributions paid to TRS subsequent to the measurement date [to be calculated by employer] | 3,039,134 | |
| Total | $26,855,654 | $6,364,228 |

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized in pension expense as follows:

| Year ended August 31: | Pension Expense Amount |
|---|---|
| 2021 | $ 3,834,811 |
| 2022 | 3,416,923 |
| 2023 | 4,141,192 |
| 2024 | 3,809,684 |
| 2025 | 2,127,791 |
| Thereafter | 121,892 |

## Note M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

***Plan Description.*** The Prosper Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas.

(TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575. TRS-Care provides health insurance coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas.

***OPEB Plan Fiduciary Net Position.*** Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at http://www.trs.texas.gov; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2019 are as follows:

| Net OPEB Liability | Total |
|---|---|
| Total OPEB Liability | $ 48,583,247,239 |
| Less: plan fiduciary net position | 1,292,022,349 |
| Net OPEB liability | $ 47,291,224,890 |
| **Net position as a percentage of total OPEB liability** | **2.66%** |

***Benefits Provided.*** TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension system. Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. 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.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th legislature also passed Senate Bill 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

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

TRS-Care Monthly Premium Rates

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

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

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of salary. Section 1575.204 establishes a public-school contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. The actual public-school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75% of each active employee's pay for fiscal year 2019. The following table shows contributions to the TRS-Care plan by type of contributor.

**Contribution Rates**

| | 2019 | 2020 |
|---|---|---|
| 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% |
| District's 2020 FY Employer Contributions | | $ 778,318 |
| District's 2020 FY Member Contributions | | $ 655,034 |
| Measurement Year NECE On-Behalf Contributions | | $ 850,079 |

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $73.6 million in fiscal year 2019.

***Actuarial Assumptions.*** The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

| | |
|---|---|
| Rates of Mortality | General Inflation |
| Rates of Retirement | Wage Inflation |
| Rates of Termination | Expected Payroll Growth |
| Rates of Disability Incidence | |

Additional Actuarial Methods and Assumptions:

| | |
|---|---|
| Valuation Date | August 31, 2018 Rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Inflation | 2.30% |
| Single Discount Rate | 2.63% as of August 31, 2019 |
| Aging Factors | Based on Plan Specific Experience |
| Election Rates | Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65. |
| Expenses | Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs. |
| Projected Salary Increases | 3.05% - 9.05% |
| Ad-hoc Post Employment Benefit Changes | None |

The impact of the Cadillac Tax that is returning in fiscal year 2023, has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

2018 thresholds of $850/$2,292 were indexed annually by 2.30 percent.

Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.

There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

***Discount Rate.*** A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06 percent in the discount rate since the previous year. The Discount Rate can be found in the 2019 TRS CAFR on page 70. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Sensitivity of the Net OPEB Liability**:

***Discount Rate Sensitivity Analysis.*** The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability.

| | 1% Decrease in Discount Rate (1.63%) | Current Single Discount Rate (2.63%) | 1% Increase in Discount Rate (3.63%) |
|---|---|---|---|
| District's proportionate share of the Net OPEB Liability: | $ 51,469,228 | $ 42,630,943 | $ 35,716,836 |

***Healthcare Cost Trend Rates Sensitivity Analysis -*** The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|---|---|---|---|
| District's proportionate share of the Net OPEB Liability: | $ 34,776,828 | $ 42,630,943 | $ 53,151,851 |

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.*** At August 31, 2020, Prosper Independent School District reported a liability of $42,630,943 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 Prosper Independent School District were as follows:

| | |
|---|---|
| District's Proportionate share of the collective net OPEB liability | $ 42,630,943 |
| State's proportionate share that is associated with the District | 56,646,988 |
| Total | $99,277,931 |

The Net OPEB Liability was measured as of August 31, 2019 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.000901455678% compared to the 0.000690393738% at August 31, 2018. This is an increase of 0.000211061940%.

**Changes in Actuarial Assumptions Since the Prior Actuarial Valuation** – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the Total OPEB liability (TOL).
- The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

**Changes in Benefit Terms:** There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, Prosper Independent School District recognized OPEB expense of $1,492,982 and revenue of $1,492,982 for support provided by the State.

At August 31, 2020, Prosper Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual actuarial experience | $2,091,410 | $6,976,102 |
| Changes in actuarial assumptions | 2,367,816 | 11,466,677 |
| Net Difference between projected and actual investment earnings | 4,600 | |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 15,815,325 | |
| Contributions paid to TRS subsequent to the measurement date | 778,318 | |
| Total | $21,057,469 | $18,442,779 |

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized in OPEB expense as follows:

| Year ended August 31: | OPEB Expense Amount |
|---|---|
| 2021 | $ (310,932) |
| 2022 | (310,932) |
| 2023 | (312,421) |
| 2024 | (313,272) |
| 2025 | (313,039) |
| Thereafter | 3,396,969 |

**Note N. MEDICARE PART D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries 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. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. State Contributions for Medicare Part D made on behalf of Prosper Independent School District's employees were $478,833, $240,358, and $170,354, respectively for fiscal years ended August 31, 2020, 2019, and 2018.

**Note O. JOINT VENTURES – SHARED SERVICE ARRANGEMENTS**

The District participates in shared services arrangements for educational service, with Education Service Center, Region X. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Prosper Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

**Note P. SUBSEQUENT EVENTS**

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through December 4, 2020, which is the date the financial statements were available to be issued. On September 15, 2020, the District issued Series 2020 refunding bonds totaling $86,485,000, to early redeem Series 2012 & Series 2014 bonds totaling $75,184,594. The new bonds are payable over the next 30 years at 4.00-5.00% interest.

REQUIRED SUPPLEMENTAL INFORMATION

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EXHIBIT G-1

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|---|---|---|---|---|
| | REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | $ 109,942,000 | $ 111,942,000 | $ 111,541,783 | $ (400,217) |
| 5800 | State Program Revenues | 41,289,000 | 44,916,500 | 51,730,715 | 6,814,215 |
| 5900 | Federal Program Revenues | 400,000 | 1,100,000 | 1,403,279 | 303,279 |
| 5020 | Total Revenues | 151,631,000 | 157,958,500 | 164,675,777 | 6,717,277 |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 102,300,000 | 99,775,000 | 95,799,456 | 3,975,544 |
| 0012 | Instructional Resources and Media Services | 2,200,000 | 2,317,000 | 2,049,705 | 267,295 |
| 0013 | Curriculum and Instructional Staff Development | 4,900,000 | 5,100,000 | 4,652,181 | 447,819 |
| 0021 | Instructional Leadership | 1,800,000 | 1,450,000 | 1,192,104 | 257,896 |
| 0023 | School Leadership | 7,750,000 | 7,985,000 | 7,678,049 | 306,951 |
| 0031 | Guidance, Counseling, and Evaluation Services | 3,206,000 | 2,931,000 | 2,599,115 | 331,885 |
| 0033 | Health Services | 1,500,000 | 1,450,000 | 1,241,954 | 208,046 |
| 0034 | Student (Pupil) Transportation | 6,875,000 | 6,853,000 | 6,382,949 | 470,051 |
| 0036 | Extracurricular Activities | 3,350,000 | 4,054,000 | 3,888,322 | 165,678 |
| 0041 | General Administration | 3,450,000 | 4,164,000 | 4,037,671 | 126,329 |
| 0051 | Facilities Maintenance and Operations | 12,150,000 | 12,240,000 | 12,222,303 | 17,697 |
| 0052 | Security and Monitoring Services | 3,006,000 | 2,464,000 | 2,091,927 | 372,073 |
| 0053 | Data Processing Services | 3,875,000 | 4,692,000 | 4,207,561 | 484,439 |
| 0061 | Community Services | 18,500 | 18,500 | 3,906 | 14,594 |
| | Debt Service: | | | | |
| 0071 | Principal on Long-Term Debt | 590,000 | 610,000 | 610,000 | - |
| 0072 | Interest on Long-Term Debt | 210,000 | 190,000 | 189,325 | 675 |
| | Intergovernmental: | | | | |
| 0091 | Contracted Instructional Services Between Schools | 625,000 | 625,000 | - | 625,000 |
| 0099 | Other Intergovernmental Charges | 1,040,000 | 1,040,000 | 999,841 | 40,159 |
| 6030 | Total Expenditures | 158,845,500 | 157,958,500 | 149,846,369 | 8,112,131 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (7,214,500) | - | 14,829,408 | 14,829,408 |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 8911 | Transfers Out (Use) | - | (50,000) | (50,000) | - |
| 1200 | Net Change in Fund Balances | (7,214,500) | (50,000) | 14,779,408 | 14,829,408 |
| 0100 | Fund Balance - September 1 (Beginning) | 99,462,230 | 99,462,230 | 99,462,230 | - |
| 3000 | Fund Balance - August 31 (Ending) | $ 92,247,730 | $ 99,412,230 | $ 114,241,638 | $ 14,829,408 |

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

| | FY 2020 Plan Year 2019 | FY 2019 Plan Year 2018 | FY 2018 Plan Year 2017 |
|---|---|---|---|
| District's Proportion of the Net Pension Liability (Asset) | 0.000751381% | 0.000528038% | 0.000482534% |
| District's Proportionate Share of Net Pension Liability (Asset) | $ 39,059,118 | $ 29,064,502 | $ 15,428,829 |
| State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District | 58,373,725 | 51,087,882 | 27,192,871 |
| Total | $ 97,432,843 | $ 80,152,384 | $ 42,621,700 |
| District's Covered Payroll | $ 84,452,678 | $ 62,082,957 | $ 54,445,299 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 46.25% | 46.81% | 28.34% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.24% | 73.74% | 82.17% |

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, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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 2017<br>Plan Year 2016 | FY 2016<br>Plan Year 2015 | FY 2015<br>Plan Year 2014 |
|---|---|---|
| 0.000416989% | 0.000392781% | 0.000250495% |
| $ 15,757,399 | $ 13,884,286 | $ 6,691,068 |
| 27,928,117 | 23,590,050 | 18,462,762 |
| $ 43,685,516 | $ 37,474,336 | $ 25,153,830 |
| $ 45,549,126 | $ 39,171,792 | $ 34,639,153 |
| 34.59% | 35.44% | 19.32% |
| 78.00% | 78.43% | 83.25% |

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Contractually Required Contribution | $ 3,039,134 | $ 2,629,915 | $ 1,778,827 |
| Contribution in Relation to the Contractually Required Contribution | 3,039,134 | 2,629,915 | 1,778,827 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| District's Covered Payroll | $ 100,773,762 | $ 84,452,678 | $ 62,082,957 |
| Contributions as a Percentage of Covered Payroll | 3.02% | 3.11% | 2.87% |

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.

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.

| 2017 | 2016 | 2015 |
|---|---|---|
| $ 1,882,781 | $ 1,577,437 | $ 1,379,578 |
| 1,882,781 | 1,577,437 | 1,379,578 |
| $ - | $ - | $ - |
| $ 54,445,299 | $ 45,549,126 | $ 39,171,792 |
| 3.46% | 3.46% | 3.52% |

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

| | FY 2020 Plan Year 2019 | FY 2019 Plan Year 2018 | FY 2018 Plan Year 2017 |
|---|---|---|---|
| District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits | 0.000901456% | 0.000690394% | 0.000604263% |
| District's Proportionate Share of Net OPEB Liability (Asset) | $ 42,630,943 | $ 34,471,991 | $ 26,277,130 |
| State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District | 56,646,988 | 56,248,818 | 45,136,147 |
| Total | $ 99,277,931 | $ 90,720,809 | $ 71,413,277 |
| District's Covered Payroll | $ 84,452,678 | $ 62,082,957 | $ 54,445,299 |
| District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll | 50.48% | 55.53% | 48.26% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability | 2.66% | 1.57% | 0.91% |

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

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

PROSPER INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR FISCAL YEAR 2020

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Contractually Required Contribution | $ 778,318 | $ 639,784 | $ 476,273 |
| Contribution in Relation to the Contractually Required Contribution | 778,318 | 639,784 | 476,273 |
| Contribution Deficiency (Excess) | $ - | $ - | $ - |
| District's Covered Payroll | $ 100,773,762 | $ 84,452,678 | $ 62,082,957 |
| Contributions as a Percentage of Covered Payroll | 0.77% | 0.76% | 0.77% |

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.

## A. Notes to Schedules for the TRS Pension

***Changes of Benefit terms:***

There were no changes of benefit terms that affected the measurement of the Total Pension liability during the measurement period.

***Changes of Assumptions:***

There were no changes in the actuarial assumptions used in the determination of the Total Pension liability during the measurement period.

The single discount rate was a blended rate of 6.907% as of August 31, 2018 and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.

With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries.

## B. Notes to Schedules for the TRS OPEB Plan

***Changes in Benefits:***

There were no changes of benefit terms during the measurement period that affected the Total OPEB liability.

***Changes in Assumptions:***

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 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.

The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.

The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.

The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

# COMBINING STATEMENTS

PROSPER INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2020

| Data Control Codes | | 211 ESSA I, A Improving Basic Program | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National Breakfast and Lunch Program |
|---|---|---|---|---|---|
| | ASSETS | | | | |
| 1110 | Cash and Cash Equivalents | $ (16,347) | $ (9,217) | $ (8,420) | $ 941,186 |
| 1240 | Due from Other Governments | 16,347 | 248,226 | 8,420 | 14,762 |
| 1300 | Inventories | - | - | - | 131,319 |
| 1000 | Total Assets | $ - | $ 239,009 | $ - | $ 1,087,267 |
| | LIABILITIES | | | | |
| 2110 | Accounts Payable | $ - | $ - | $ - | $ 596,205 |
| 2160 | Accrued Wages Payable | - | 215,547 | - | - |
| 2170 | Due to Other Funds | - | - | - | - |
| 2200 | Accrued Expenditures | - | 23,462 | - | - |
| 2300 | Unearned Revenue | - | - | - | 435,211 |
| 2000 | Total Liabilities | - | 239,009 | - | 1,031,416 |
| | FUND BALANCES | | | | |
| | Restricted Fund Balance: | | | | |
| 3450 | Federal or State Funds Grant Restriction | - | - | - | 55,851 |
| 3490 | Other Restricted Fund Balance | - | - | - | - |
| | Committed Fund Balance: | | | | |
| 3510 | Construction | - | - | - | - |
| 3000 | Total Fund Balances | - | - | - | 55,851 |
| 4000 | Total Liabilities and Fund Balances | $ - | $ 239,009 | $ - | $ 1,087,267 |

| 244 Career and Technical - Basic Grant | 255 ESSA II, A Training and Recruiting | 263 Title III, A English Lang. Acquisition | 266 ESSER-School Emergency Relief Grant | 288 ESSA Title IV Part A | 289 CARES Act Provider Relief Fund | 385 Visually Impaired SSVI | 397 Advanced Placement Incentives |
|---|---|---|---|---|---|---|---|
| $ - | $ (17,467) | $ (44,881) | $ (54,062) | $ (9,250) | $ - | $ - | $ - |
| - | 17,467 | 44,881 | 54,062 | 9,250 | - | - | - |
| - | - | - | - | - | - | - | - |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| | | | | | | | |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| | | | | | | | |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| | | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

PROSPER INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2020

| Data Control Codes | | 410 Instructional Materials Allotment | 427 Special Ed Fiscal Support | 429 School Safety & Security Grant | 461 Campus Activity Funds |
|---|---|---|---|---|---|
| | ASSETS | | | | |
| 1110 | Cash and Cash Equivalents | $ (133,747) | $ 103,804 | $ - | $ 1,696,316 |
| 1240 | Due from Other Governments | 133,747 | - | 232,165 | - |
| 1300 | Inventories | - | - | - | - |
| 1000 | Total Assets | $ - | $ 103,804 | $ 232,165 | $ 1,696,316 |
| | LIABILITIES | | | | |
| 2110 | Accounts Payable | $ - | $ - | $ - | $ 38,723 |
| 2160 | Accrued Wages Payable | - | - | - | - |
| 2170 | Due to Other Funds | - | - | 232,165 | - |
| 2200 | Accrued Expenditures | - | - | - | - |
| 2300 | Unearned Revenue | - | 103,804 | - | - |
| 2000 | Total Liabilities | - | 103,804 | 232,165 | 38,723 |
| | FUND BALANCES | | | | |
| | Restricted Fund Balance: | | | | |
| 3450 | Federal or State Funds Grant Restriction | - | - | - | - |
| 3490 | Other Restricted Fund Balance | - | - | - | 1,657,593 |
| | Committed Fund Balance: | | | | |
| 3510 | Construction | - | - | - | - |
| 3000 | Total Fund Balances | - | - | - | 1,657,593 |
| 4000 | Total Liabilities and Fund Balances | $ - | $ 103,804 | $ 232,165 | $ 1,696,316 |

| Total Nonmajor Special Revenue Funds | 670 Local Capital Projects | 680 Land Acquisition Bond Fund | 686 Bond Construction 2019A | Total Nonmajor Governmental Funds |
|---|---|---|---|---|
| $ 2,447,915 | $ 72,213 | $ - | $ - | $ 2,520,128 |
| 779,327 | 1,099,176 | - | - | 1,878,503 |
| 131,319 | - | - | - | 131,319 |
| $ 3,358,561 | $ 1,171,389 | $ - | $ - | $ 4,529,950 |
| $ 634,928 | $ - | $ - | $ - | $ 634,928 |
| 215,547 | - | - | - | 215,547 |
| 232,165 | - | - | - | 232,165 |
| 23,462 | - | - | - | 23,462 |
| 539,015 | - | - | - | 539,015 |
| 1,645,117 | - | - | - | 1,645,117 |
| 55,851 | - | - | - | 55,851 |
| 1,657,593 | - | - | - | 1,657,593 |
| - | 1,171,389 | - | - | 1,171,389 |
| 1,713,444 | 1,171,389 | - | - | 2,884,833 |
| $ 3,358,561 | $ 1,171,389 | $ - | $ - | $ 4,529,950 |

PROSPER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | 211 ESSA I, A Improving Basic Program | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National Breakfast and Lunch Program |
|---|---|---|---|---|---|
| | REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | $ - | $ - | $ - | $ 3,884,125 |
| 5800 | State Program Revenues | - | - | - | 10,369 |
| 5900 | Federal Program Revenues | 37,551 | 1,647,140 | 8,420 | 527,682 |
| 5020 | Total Revenues | 37,551 | 1,647,140 | 8,420 | 4,422,176 |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 37,551 | 1,647,140 | 8,420 | - |
| 0013 | Curriculum and Instructional Staff Development | - | - | - | - |
| 0035 | Food Services | - | - | - | 5,134,625 |
| 0036 | Extracurricular Activities | - | - | - | - |
| | Capital Outlay: | | | | |
| 0081 | Facilities Acquisition and Construction | - | - | - | - |
| 6030 | Total Expenditures | 37,551 | 1,647,140 | 8,420 | 5,134,625 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - | (712,449) |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7915 | Transfers In | - | - | - | - |
| 8911 | Transfers Out (Use) | - | - | - | - |
| 7080 | Total Other Financing Sources (Uses) | - | - | - | - |
| 1200 | Net Change in Fund Balance | - | - | - | (712,449) |
| 0100 | Fund Balance - September 1 (Beginning) | - | - | - | 768,300 |
| 3000 | Fund Balance - August 31 (Ending) | $ - | $ - | $ - | $ 55,851 |

| 244 Career and Technical - Basic Grant | 255 ESSA II, A Training and Recruiting | 263 Title III, A English Lang. Acquisition | 266 ESSER-School Emergency Relief Grant | 288 ESSA Title IV Part A | 289 CARES Act Provider Relief Fund | 385 Visually Impaired SSVI | 397 Advanced Placement Incentives |
|---|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| - | - | - | - | - | - | 3,675 | 9,489 |
| 22,630 | 21,064 | 60,916 | 54,062 | 9,250 | 14,660 | - | - |
| 22,630 | 21,064 | 60,916 | 54,062 | 9,250 | 14,660 | 3,675 | 9,489 |
| 22,630 | 21,064 | 60,916 | 54,062 | 9,250 | 14,660 | 3,675 | - |
| - | - | - | - | - | - | - | 9,489 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 22,630 | 21,064 | 60,916 | 54,062 | 9,250 | 14,660 | 3,675 | 9,489 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

PROSPER INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | 410 Instructional Materials Allotment | 427 Special Ed Fiscal Support | 429 School Safety & Security Grant | 461 Campus Activity Funds |
|---|---|---|---|---|---|
| | REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | $ - | $ - | $ - | $ 2,472,198 |
| 5800 | State Program Revenues | 1,906,132 | 21,196 | 232,165 | - |
| 5900 | Federal Program Revenues | - | - | - | - |
| 5020 | Total Revenues | 1,906,132 | 21,196 | 232,165 | 2,472,198 |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 1,906,132 | 21,196 | - | - |
| 0013 | Curriculum and Instructional Staff Development | - | - | - | - |
| 0035 | Food Services | - | - | - | - |
| 0036 | Extracurricular Activities | - | - | - | 1,936,067 |
| | Capital Outlay: | | | | |
| 0081 | Facilities Acquisition and Construction | - | - | 232,165 | - |
| 6030 | Total Expenditures | 1,906,132 | 21,196 | 232,165 | 1,936,067 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | - | 536,131 |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7915 | Transfers In | - | - | - | - |
| 8911 | Transfers Out (Use) | - | - | - | - |
| 7080 | Total Other Financing Sources (Uses) | - | - | - | - |
| 1200 | Net Change in Fund Balance | - | - | - | 536,131 |
| 0100 | Fund Balance - September 1 (Beginning) | - | - | - | 1,121,462 |
| 3000 | Fund Balance - August 31 (Ending) | $ - | $ - | $ - | $ 1,657,593 |

| Total Nonmajor Special Revenue Funds | 670 Local Capital Projects | 680 Land Acquisition Bond Fund | 686 Bond Construction 2019A | Total Nonmajor Governmental Funds |
|---|---|---|---|---|
| $ 6,356,323 | $ 26,713 | $ 37,937 | $ - | $ 6,420,973 |
| 2,183,026 | - | - | - | 2,183,026 |
| 2,403,375 | - | - | - | 2,403,375 |
| 10,942,724 | 26,713 | 37,937 | - | 11,007,374 |
| | | | | |
| 3,806,696 | - | - | - | 3,806,696 |
| 9,489 | - | - | - | 9,489 |
| 5,134,625 | - | - | - | 5,134,625 |
| 1,936,067 | - | - | - | 1,936,067 |
| | | | | |
| 232,165 | 392,322 | 3,697,131 | - | 4,321,618 |
| 11,119,042 | 392,322 | 3,697,131 | - | 15,208,495 |
| (176,318) | (365,609) | (3,659,194) | - | (4,201,121) |
| | | | | |
| - | 50,000 | - | - | 50,000 |
| - | - | - | (2,205,227) | (2,205,227) |
| - | 50,000 | - | (2,205,227) | (2,155,227) |
| (176,318) | (315,609) | (3,659,194) | (2,205,227) | (6,356,348) |
| 1,889,762 | 1,486,998 | 3,659,194 | 2,205,227 | 9,241,181 |
| $ 1,713,444 | $ 1,171,389 | $ - | $ - | $ 2,884,833 |

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2020

| Last 10 Years Ended August 31 | | (1) Tax Rates Maintenance | (2) Tax Rates Debt Service | (3) Assessed/Appraised Value for School Tax Purposes |
|---|---|---|---|---|
| 2011 | and prior years | $ 1.130000 | $ 0.500000 | $ 1,764,422,282 |
| 2012 | | 1.170000 | 0.500000 | 1,899,775,096 |
| 2013 | | 1.170000 | 0.500000 | 2,086,279,588 |
| 2014 | | 1.170000 | 0.500000 | 2,448,157,409 |
| 2015 | | 1.170000 | 0.500000 | 3,024,461,700 |
| 2016 | | 1.170000 | 0.500000 | 3,847,037,610 |
| 2017 | | 1.170000 | 0.500000 | 4,912,503,782 |
| 2018 | | 1.170000 | 0.500000 | 6,483,353,632 |
| 2019 | | 1.170000 | 0.500000 | 8,198,742,196 |
| 2020 | (School year under audit) | 1.068350 | 0.500000 | 9,694,457,179 |
| 1000 | TOTALS | | | |

| (10) Beginning Balance 9/1/2019 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2020 |
|---|---|---|---|---|---|
| $ 66,651 | $ - | $ 138 | $ 61 | $ (14,420) | $ 52,032 |
| 26,332 | - | 2,483 | 1,061 | - | 22,788 |
| 17,837 | - | 7,939 | 3,393 | - | 6,505 |
| 99,299 | - | 173,347 | 74,080 | 152,357 | 4,229 |
| 147,905 | - | 365,843 | 156,343 | 390,649 | 16,368 |
| 123,707 | - | 413,115 | 176,545 | 465,953 | - |
| 265,169 | - | 603,681 | 257,984 | 636,330 | 39,834 |
| 294,575 | - | 522,148 | 223,140 | 450,713 | - |
| 619,332 | - | 656,104 | 280,386 | 377,696 | 60,538 |
| - | 152,043,019 | 103,142,619 | 48,271,923 | - | 628,477 |
| $ 1,660,807 | $ 152,043,019 | $ 105,887,417 | $ 49,444,916 | $ 2,459,278 | $ 830,771 |

EXHIBIT J-2

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|---|---|---|---|---|
| | REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | $ 5,122,610 | $ 5,122,610 | $ 3,884,125 | $ (1,238,485) |
| 5800 | State Program Revenues | 9,800 | 9,800 | 10,369 | 569 |
| 5900 | Federal Program Revenues | 540,000 | 540,000 | 527,682 | (12,318) |
| 5020 | Total Revenues | 5,672,410 | 5,672,410 | 4,422,176 | (1,250,234) |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0035 | Food Services | 5,562,100 | 5,562,100 | 5,134,625 | 427,475 |
| 6030 | Total Expenditures | 5,562,100 | 5,562,100 | 5,134,625 | 427,475 |
| 1200 | Net Change in Fund Balances | 110,310 | 110,310 | (712,449) | (822,759) |
| 0100 | Fund Balance - September 1 (Beginning) | 768,300 | 768,300 | 768,300 | - |
| 3000 | Fund Balance - August 31 (Ending) | $ 878,610 | $ 878,610 | $ 55,851 | $ (822,759) |

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|---|---|---|---|---|
| | REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | $ 49,232,000 | $ 49,232,000 | $ 50,100,940 | $ 868,940 |
| 5800 | State Program Revenues | - | 226,420 | 247,001 | 20,581 |
| 5020 | Total Revenues | 49,232,000 | 49,458,420 | 50,347,941 | 889,521 |
| | EXPENDITURES: | | | | |
| | Debt Service: | | | | |
| 0071 | Principal on Long-Term Debt | 10,875,652 | 10,875,652 | 10,875,552 | 100 |
| 0072 | Interest on Long-Term Debt | 38,356,348 | 39,495,873 | 39,495,872 | 1 |
| 0073 | Bond Issuance Cost and Fees | - | 1,066,831 | 1,066,831 | - |
| 6030 | Total Expenditures | 49,232,000 | 51,438,356 | 51,438,255 | 101 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | - | (1,979,936) | (1,090,314) | 889,622 |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7911 | Capital Related Debt Issued | - | 103,497 | 166,257 | 62,760 |
| 7916 | Premium or Discount on Issuance of Bonds | - | 1,724,264 | 1,733,671 | 9,407 |
| 7080 | Total Other Financing Sources (Uses) | - | 1,827,761 | 1,899,928 | 72,167 |
| 1200 | Net Change in Fund Balances | - | (152,175) | 809,614 | 961,789 |
| 0100 | Fund Balance - September 1 (Beginning) | 14,108,653 | 14,108,653 | 14,108,653 | - |
| 3000 | Fund Balance - August 31 (Ending) | $ 14,108,653 | $ 13,956,478 | $ 14,918,267 | $ 961,789 |

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FEDERAL AWARDS SECTION

***Morgan, Davis, & Company, P.C.***
**Post Office Box 8158**
**Greenville, Texas 75404**


## 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*

### Independent Auditor's Report

Prosper Independent School District
606 East 7th Street
Prosper, Texas 75078

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Prosper Independent School District, as of and for the year ended August 31, 2020 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 4, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Prosper Independent School 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 Prosper Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Prosper Independent School 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 may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Prosper Independent School 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.

*/s/ Morgan, Davis & Company, P.C.*

Morgan, Davis, & Company, P.C.
Greenville, Texas

December 4, 2020

*Morgan, Davis & Company, P.C.*
**Post Office Box 8158**
**Greenville, Texas 75404**

**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 Uniform Guidance**

**Independent Auditor's Report**

Prosper Independent School District
605 East 7th Street
Prosper, Texas 75078

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

We have audited Prosper Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Prosper Independent School District's major federal programs for the year ended August 31, 2020. Prosper Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***
Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***
Our responsibility is to express an opinion on compliance for each of Prosper Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Prosper Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Prosper Independent School District's compliance.

***Opinion on Each Major Federal Program***
In our opinion, Prosper Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

**Report on Internal Control Over Compliance**

Management of Prosper Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Prosper Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Prosper Independent School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of Prosper Independent School District as of and for the year ended August 31, 2020, and have issued our report thereon dated December 4, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*/s/ Morgan, Davis & Company, P.C.*

Morgan, Davis & Company, P.C.
Greenville, Texas

December 4, 2020

PROSPER INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2020

**Summary of Auditor's Results:**

The type of report we issued on whether the financial statements of Prosper Independent School District were prepared in accordance with GAAP as an unmodified opinion.

With respect to internal control over financial reporting, we identified no material weaknesses and we reported no significant deficiencies.

We noted no noncompliance material to the financial statements,

With respect to internal control over major federal programs, we identified no material weaknesses and we reported no significant deficiencies.

The type of report we issued on compliance for major programs was an unmodified opinion.

We disclosed no audit findings which the auditor is required to report in accordance with 2 CFR 200.516(a).

We identified the following major programs:

Special Education Cluster
IDEA, Part B, Formula, CFDA # 84.027
IDEA, Part B, Preschool, CFDA # 84.173

The dollar threshold used to distinguish between Type A and Type B programs was $750,000.

The auditee does qualify as a low risk auditee.

**Financial Statements Findings:**

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards.*

**Federal Award Findings and Questioned Costs:**

There are no findings or questioned costs related to federal awards which are required to be reported by 2 CFR 200.516(a).

PROSPER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2020

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

PROSPER INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2020

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2020.

# PROSPER INDEPENDENT SCHOOL DISTRICT
## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED AUGUST 31, 2020

| (1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | (2) Federal CFDA Number | (3) Pass-Through Entity Identifying Number | (4) Federal Expenditures |
|---|---|---|---|
| **U.S. DEPARTMENT OF EDUCATION** | | | |
| Passed Through State Department of Education | | | |
| ESSA, Title I, Part A - Improving Basic Programs | 84.010A | 20610101057950 | $ 37,551 |
| *IDEA - Part B, Formula | 84.027 | 20660001043912 | 1,408,131 |
| *IDEA - Part B, Formula | 84.027 | 21660001043912 | 239,009 |
| Total CFDA Number 84.027 | | | 1,647,140 |
| *IDEA - Part B, Preschool | 84.173 | 20661001043912 | 8,420 |
| Total Special Education Cluster (IDEA) | | | 1,655,560 |
| Carl D. Perkins Basic Formula Grant | 84.048 | 20420006043912 | 22,630 |
| Title III, Part A - English Language Acquisition | 84.365A | 20681001057950 | 60,916 |
| ESSA, Title II, Part A, Teacher Principal Training | 84.367A | 20694501057950 | 21,064 |
| ESSA, Title IV, Part A | 84.424A | 20680101057950 | 9,250 |
| ESSER Grant | 84.425D | 20521001057950 | 54,062 |
| Total Passed Through State Department of Education | | | 1,861,033 |
| **TOTAL U.S. DEPARTMENT OF EDUCATION** | | | 1,861,033 |
| **U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | |
| Passed Through Texas Dept of Human Services | | | |
| CARES Act Provider Relief Fund | 93.498 | N/A | 14,660 |
| Total Passed Through Texas Dept of Human Services | | | 14,660 |
| **TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES** | | | 14,660 |
| **U.S. DEPARTMENT OF AGRICULTURE** | | | |
| Passed Through the State Department of Agriculture | | | |
| *School Breakfast Program | 10.553 | 20043912 | 39,455 |
| *National School Lunch Program - Cash Assistance | 10.555 | 20043912 | 329,423 |
| *National School Lunch Prog. - Non-Cash Assistance | 10.555 | 20043912 | 158,804 |
| Total CFDA Number 10.555 | | | 488,227 |
| Total Child Nutrition Cluster | | | 527,682 |
| Total Passed Through the State Department of Agriculture | | | 527,682 |
| **TOTAL U.S. DEPARTMENT OF AGRICULTURE** | | | 527,682 |
| **TOTAL EXPENDITURES OF FEDERAL AWARDS** | | | $ 2,403,375 |

*Clustered Programs

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

PROSPER INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2020

1. For all federal programs, the District uses the fund types specified in 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 is generally accounted for in a Special Revenue Fund.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred. 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 deferred expenditures until earned.

3. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2020, 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 provisions have been recorded in the accompanying financial statements for such contingencies.

4. The period performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, Part 3, Uniform Guidance Compliance Statement.

5. CFDA numbers for commodity assistance are the CFDA numbers of the programs under which USDA donated the commodities.

6. The District did not receive any indirect cost reimbursement for federal programs for this fiscal year.

7. The General Fund had SHARS program revenue of $789,871, IRS Treasury program revenue of $235,727, and E-Rate program revenue of $377,681 that are not considered federal financial assistance and are not included in the Schedule of Expenditures of Federal Awards.

## SCHOOLS FIRST QUESTIONNAIRE

Prosper Independent School District — Fiscal Year 2020

| | | |
|---|---|---|
| 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? | 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 there was a warrant hold not cleared in 30 days, then not timely.) | Yes |
| SF4 | Was the school district issued a warrant hold? (Yes even if cleared within 30 days.) | No |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds? | No |
| SF6 | Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? | No |
| SF7 | Did the school district post the required financial information on its website in accordance with Government Code, Local Govenment Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules in effect at the fiscal year end? | Yes |
| SF8 | Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget? | Yes |
| SF9 | Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end. | 7,060,190 |

Financial Advisory Services
Provided By:

SAMCO Capital