

PRELIMINARY OFFERING MEMORANDUM

Dated: August 12, 2021

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (defined below), interest on the Bonds (defined below) 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. Additionally, see "THE BONDS - Determination of Interest Rate; Rate Mode Changes" identifying circumstances when an opinion of nationally recognized bond counsel is required as a condition for an interest mode conversion. Bond Counsel expresses no opinion as to the effect on the excludability from gross income for federal income tax purposes of any action requiring such an opinion.

\$15,000,000*

PONDER INDEPENDENT SCHOOL DISTRICT

**(A political subdivision of the State of Texas located in Denton County, Texas)
ADJUSTABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021
INITIAL RATE PERIOD ENDING _____ AT A PER ANNUM INITIAL RATE OF ____%
(PRICED TO YIELD ____% TO MANDATORY TENDER DATE)**

Dated Date: September 1, 2021 (interest will accrue from the Closing Date)

Mandatory Tender Date: August 15, 2024*

CUSIP No⁽¹⁾: _____

Stated Maturity: February 15, 2051

The Ponder Independent School District Adjustable Rate 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), as amended, Texas Education Code, an election held in the District on May 1, 2021 and the order (the "Order") to be adopted by the Board of Trustees (the "Board") on August 19, 2021. 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 Ponder Independent School District (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; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price (defined herein) for mandatorily tendered Bonds. (See "THE BONDS - Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

During the Initial Rate Period (defined below), interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will be payable on each February 15 and August 15, commencing February 15, 2022. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM" herein). The initial Tender Agent and Paying Agent/Registrar, respectively, for the Bonds is BOKF, NA, Dallas, Texas (see "THE BONDS - General Description").

The Bonds are issued as a single Term Bond scheduled to mature as shown above and subject to optional, extraordinary optional, and mandatory redemption prior to maturity, in whole or in part, as described herein (see "THE BONDS - Redemption").

The Bonds will bear interest initially at the Initial Rate from the date of the initial delivery of the Bonds to the Underwriters (defined below), anticipated to occur on or about September 16, 2021 (the "Closing Date"), through August 14, 2024* (the "Initial Rate Period"), at the rate of ____% (the "Initial Rate") (being the rate so determined by the Underwriters identified below). Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent (defined below); provided, however, that the interest rate mode applicable to the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration, or (b) converted to a Fixed Rate until stated maturity or (as and if applicable) prior redemption (as such terms are defined and described herein). This Offering Memorandum describes the Bonds only in the Initial Rate Period during which the Bonds bear interest at the Initial Rate (and, after conclusion of such Initial Rate Period and if at all, the period during which the Bonds bear interest at the Stepped Rate) and not the Bonds remarketed and sold into another interest rate period during which the Bonds bear interest in another interest rate mode.

The Bonds will be subject to mandatory tender without the right of retention on the Conversion Date immediately following the end of the Initial Rate Period, which occurs on August 15, 2024*. During the Initial Rate Period, the Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the Remarketing Agent to remarket Bonds subject to mandatory tender on the Conversion Date at the end of the Initial Rate Period will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Bonds that have been unsuccessfully remarketed as described above, such Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean ____% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS - Tender Provisions" herein).

All tenders of Bonds must be made to the Tender Agent at its designated office in Dallas, Texas. In the Order, the District has covenanted to identify and enter into a contract with a remarketing agent (the "Remarketing Agent") for the Bonds prior to the commencement of the remarketing period applicable to the Bonds. Bonds tendered for purchase on the initial Conversion Date will be bought from the proceeds derived from the remarketing of the Bonds, if any; provided, however, that should the date for tender of the Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

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

Concurrently with the issuance of the Bonds, the District is issuing its \$60,000,000* Fixed Rate Unlimited Tax School Building Bonds, Series 2021 (see "INTRODUCTORY STATEMENT" herein).

The Bonds are offered for delivery when, as and if issued, and received by 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 September 16, 2021.

FHN FINANCIAL CAPITAL MARKETS

PIPER SANDLER & CO.

BOK FINANCIAL SECURITIES, INC.

* Preliminary, subject to change.

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

PONDER INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Shawn Wilkinson, President	2019	2022	Assistant City Manager Roanoke
Craig Brown, Vice President	2020	2023	Attorney
Vangee Deussen, Secretary	2017	2023	Educator – Administration
Chance Allen, Member	2021	2024	Banking
Brian Hutcherson, Member	2019	2022	Insurance Agent
Bruce Laney, Member	2021	2024	HVAC
Justin Schulz, Member	2020	2023	Aviation Consulting

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Dr. Jeremy Thompson	Superintendent	26 Years	6 Months
Kent Josselet	Assistant Superintendent	32 Years	18 Years

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Hankins, Eastup, Deaton, Tonn & Seay, Denton, Texas	Certified Public Accountants

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Plano, Texas 75024
(214) 765-1470
(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFERING MEMORANDUM

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 Offering Memorandum, 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 Offering Memorandum, 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 Offering Memorandum, and, if given or made, such other information or representations must not be relied upon.

The Underwriters have provided the following sentence for inclusion in this Offering Memorandum. The Underwriters have reviewed the information in the Offering Memorandum 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.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Offering Memorandum 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 Offering Memorandum 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 Texas Education Agency’s (“TEA”) and the District’s undertakings 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.

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 MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER “BOOK-ENTRY-ONLY SYSTEM” OR THE AFFAIRS OF THE TEA DESCRIBED UNDER “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AS SUCH INFORMATION WAS PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

THIS OFFERING MEMORANDUM 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 Offering Memorandum nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFERING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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SELECTED DATA FROM THE OFFERING MEMORANDUM

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

The District	The Ponder Independent School District (the "District") is a political subdivision of the State of Texas located in Denton County, 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.
Rate Periods	The Bonds will initially bear interest at an Initial Rate during the Initial Rate Period, being the rate determined by the Underwriters, which will be in effect from the Closing Date (as defined in the Order, but anticipated to occur on or about September 16, 2021) through August 14, 2024*, with interest being payable on each February 15 and August 15, beginning February 15, 2022. The Initial Rate is _____%, calculated on the basis of a 360-day year of twelve 30-day months. Thereafter, the Bonds will convert to a Term Mode of like duration and bear interest at a Term Rate determined by the Remarketing Agent; provided, however, that the interest rate mode for the Bonds may be (a) changed from time to time to a Term Mode during which the Bonds bear interest at a Term Rate for a period of different duration or (b) converted to a Fixed Rate until stated maturity (as such terms are defined and described herein). (See "THE BONDS - Interest Rate Modes" herein.) In the event of a failed remarketing and conversion, the Bonds will bear interest at the Stepped Rate during the Stepped Rate Period (as defined in the Order). The Stepped Rate for the Bonds is _____%. (See "THE BONDS - Tender Provisions" herein)
Paying Agent/Registrar and Tender Agent	The initial Paying Agent/Registrar and Tender Agent for the Bonds is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of DTC. (See "BOOK-ENTRY-ONLY SYSTEM.")
Security	The Bonds will constitute direct 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.
Redemption	<p>After the Initial Rate Period and prior to conversion to a Fixed Rate, or a new Term Rate, the Bonds are subject to optional redemption at par, on the dates and in the manner, as described herein. In addition, and at all times that the Bonds bear interest at the Initial Rate or at a Term Rate (including during the Initial Rate Period), the Bonds are subject to redemption, on any date and in whole (but not in part), at the District's option upon the occurrence of a hereinafter-defined Extraordinary Event, and at any time during a Stepped Rate Period, at the redemption price of par plus accrued interest to such date of redemption. (See "THE BONDS - Redemption".)</p> <p>During the Initial Rate Period the Bonds are not subject to optional redemption except, as described above, upon the occurrence of an Extraordinary Event or during any Stepped Rate Period following the Initial Rate Period.</p> <p>These provisions are preliminary and subject to change.</p>
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price of) the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
Rating	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program of the Texas Education Agency. The District's underlying, unenhanced rating, including the Bonds, is "AA-" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" 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 existing 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 occur on or about September 16, 2021.
Concurrent Issuance of Bonds by the District	The Bonds are being issued concurrently with the District's issuance of \$60,000,000 (preliminary, subject to change) Ponder Independent School District Fixed Rate Unlimited Tax School Building Bonds, Series 2021, scheduled to close on or about September 16, 2021 (the "Series 2021 Fixed Rate Bonds"). This Offering Memorandum describes only the Bonds and not the Series 2021 Fixed Rate Bonds. Investors interested in making an investment decision concerning the Series 2021 Fixed Rate Bonds should review the offering documents relating thereto.

INTRODUCTORY STATEMENT

This Offering Memorandum, including Appendices A, B and D, has been prepared by the Ponder Independent School District (the "District"), a political subdivision of the State of Texas located in Denton County, Texas, in connection with the offering by the District of its Adjustable Rate Unlimited Tax School Building Bonds, Series 2021 (the "Bonds").

All financial and other information presented in this Offering Memorandum 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 such financial and other information, will necessarily continue or be repeated in the future.

There follows in this Offering Memorandum descriptions of the Bonds and the order to be adopted by the Board of Trustees of the District (the "Board") on August 19, 2021 authorizing the issuance of the Bonds (the "Bond Order") and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Ponder Independent School District, 400 West Bailey Street, Ponder, Texas 76259 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 Offering Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of the Final Offering Memorandum pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

Concurrently with the issuance of the Bonds, the District is issuing its \$60,000,000* Fixed Rate Unlimited Tax School Building Bonds, Series 2021 (the "Series 2021 Fixed Rate Bonds"). The Series 2021 Fixed Rate Bonds are issued for the same purposes as are the Bonds, utilizing the authorization to issue unlimited ad valorem tax bonds approved at the Election (as defined below), but are separate obligations of the District. This Offering Memorandum describes only the Bonds and not the Series 2021 Fixed Rate Bonds. Investors interested in purchasing the Series 2021 Fixed Rate Bonds should review the offering document relating thereto.

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, mitigation and reopening. However, on March 2, 2021, the Governor issued Executive Order GA-34 effective March 10, 2021, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34 in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance, subject to certain exceptions. Notwithstanding the above, Executive Order GA-36 provides for public schools to continue to follow policies regarding the wearing of face coverings to the extent reflected in current guidance by TEA, until June 4, 2021. However, Executive Order GA-36 required TEA to revise its guidance such that, effective 11:59 p.m. on June 4, 2021, no student, teacher, parent, or other staff member or visitor may be required to wear a face covering. TEA has since updated its guidance in accordance with Executive Order GA-36. Executive orders remain in place until they are amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Offering Memorandum.

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 fully quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The TEA advised districts that for the 2020-2021 school year district funding will return to being based on "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") calculations requiring attendance to be taken. However, the TEA has crafted an approach for determining ADA during the pandemic 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 were initially provided an ADA grace period for the first three six weeks of the 2020-2021 school year. If a district's first two six-week average ADA is less than the ADA hold harmless projections (described below), the first two six-week attendance reporting periods for 2020-2021 will be excluded from the calculation of annual ADA and student fulltime equivalents ("FTE") for Foundation School Program ("FSP") funding purposes and will be replaced with the ADA and FTE hold harmless projections that were derived using a three-year average trend of final numbers from the 2017-2018 through 2019-2020 school years, unless this projection is both (i) 15% higher and (ii) 100 ADA higher than the 2020-2021 legislative planning estimate ("LPE") projections provided by the TEA to the State legislature pursuant to Section 48.269 of the Texas Education Code, in which case the 2020-2021 LPE ADA and FTE will be used as the hold harmless projections.

The ADA hold harmless protection was also available for the third six-week attendance reporting period, but only for those districts that allowed on-campus instruction throughout the entire third six-week period, as further described below. The ADA hold harmless methodology will be identical to the methodology used for the first two six-week attendance reporting periods, except that the third six-week period will be examined independent of the first two six-week attendance reporting periods.

The ADA hold harmless protection was also extended for the remainder of the 2020-21 school year (the fourth, fifth, and sixth six-week attendance reporting periods). In order to qualify, a district must meet certain criteria established by the TEA related to on-campus participation rates during the sixth six-week attendance reporting period. A district would be eligible for the ADA hold harmless protection for the fourth, fifth, and sixth six-weeks if (1) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than 80% of all students educated during the sixth six-weeks; or (2) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than the on-campus attendance participation rate reported by the district on the October 2020 PEIMS Fall Snapshot. This recent extension also potentially provided ADA hold harmless protection to districts that were not previously eligible for the ADA hold harmless protection during third six-weeks attendance reporting period as previously discussed. If applicable, a district can now be eligible if (1) the average on-campus participation rate during the sixth six-weeks reporting period was equal to or greater than 90% of all students educated during the sixth six-weeks; or (2) for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate of less than 50%, the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period must increase by at least 20 percentage points from the on-campus attendance participation rate reported on the district's October 2020 PEIMS Fall Snapshot, or for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate equal to or greater than 50%, the average on-campus attendance participation rate during the sixth six-weeks reporting period must be equal to or greater than the on-campus percentage of all students educated during the sixth six-weeks that results from adding 45 percentage points to half of the on-campus attendance participation rate reported on the district's October 2020 PEIMS Fall Snapshot.

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.

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 (which markets provide significant revenues to the State, who in turn, use such revenues to satisfy its public school funding obligations). 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 Offering Memorandum are as of dates and for periods stated herein. Accordingly, they are not indicative of the future prospects of the District. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. 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.

THE BONDS

Authorization and Purpose

The Bonds are being issued in the principal amount of \$15,000,000 (preliminary, subject to change) pursuant to the Texas Constitution and general laws of the State of Texas (the "State"), particularly Section 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 1, 2021 (the "Election"), and the Bond Order. Proceeds from the sale of the Bonds will be used to (i) acquire, construct, renovate and equip school buildings in the District, and (iii) pay the costs of issuing the Bonds.

Security for Payment

The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. The District has received conditional approval from the Texas Education Agency for the payment of the scheduled debt service on (but not the Purchase Price 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 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; provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. 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. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES").

General Description

Initial Issuance in Initial Rate Period. The Bonds are multimodal adjustable rate bonds (convertible upon mandatory tender and remarketing into a Term Rate interest mode of different duration or a Fixed Rate interest mode), initially issued in an initial period of interest during which the Bonds bear interest at the Initial Rate, which interest rate period is effective upon initial delivery of the Bonds to the Underwriters (anticipated to occur on or about September 16, 2021) and continues through August 14, 2024* (such period referred to herein and in the Order as the "Initial Rate Period"). Upon expiration of the Initial Rate Period, the Bonds will be remarketed into a successive Term Mode interest period of the like duration, unless changed as described herein.

* Preliminary, subject to change.

THE BONDS ARE SUBJECT TO CONVERSION AND REMARKETING INTO A SUBSEQUENT TERM RATE OR FIXED RATE INTEREST PERIOD AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH BONDS. THIS OFFERING MEMORANDUM DESCRIBES THE BONDS ONLY IN THE INITIAL RATE PERIOD AND IS, THEREFORE, NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS OFFERING MEMORANDUM FOR INFORMATION CONCERNING ANY INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN IN THE INITIAL RATE PERIOD.

Authorized Denominations. The Bonds are issued in denominations of \$5,000.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds will accrue from the Closing Date and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest accruing on the Bonds during the Initial Rate Period will be paid on each February 15 and August 15 commencing February 15, 2022.

Interest Payment Methods. While the Bonds bear interest at the Initial Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

Book-Entry System of Registration and Payment. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company, New York, New York ("DTC"). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. (See "THE BONDS – Book-Entry-Only System".)

Paying Agent/Registrar. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Tender Agent. BOKF, NA, Dallas, Texas, will serve as the initial tender agent (the "Tender Agent") for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to BOKF, NA, Dallas, Texas, Attn: Mr. Tony Hongnoi, 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to 5956 Sherry Lane, Suite 1201, Dallas, Texas 75225.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the "Remarketing Agent") prior to the commencement of the remarketing of the Bonds into a new interest rate period prior to expiration of the Initial Rate Period, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. The District anticipates identifying the initial Remarketing Agent for the Bonds at or about the time the Board, prior to the expiration of the Initial Rate Period, adopts the order authorizing the remarketing of the Bonds from the Initial Rate Period into a subsequent interest rate period. The offering memorandum prepared by the District in conjunction with such remarketing of the Bonds will describe the terms of the agreement between the District and the Remarketing Agent, serving the District in such capacity.

Payment Record. The District has never defaulted with respect to the payment of its bonded indebtedness.

Interest Rate Modes

The Bonds may be converted and remarketed into a new Term Rate interest period of the same or different duration or to a Fixed Rate interest period. While the Bonds bear interest at a Term Rate, the interest rate will be determined in effect for a term of one year or any integral multiple of one year selected by the District commencing on the first calendar day of the Term Rate Period, provided that the Initial Rate Period is as set forth on the cover page hereof.

The interest rate mode selected by the District will remain in effect until changed by the District by notice to the Paying Agent/Registrar, the Tender Agent and the Remarketing Agent, in accordance with the Order. Notice of changes in interest rate modes will be given as described below. See "THE BONDS - Determination of Interest Rates; Rate Mode Changes".

Determination of Interest Rates; Rate Mode Changes

Initial Rate. The Bonds will bear interest at the Initial Rate for the Initial Rate Period, beginning on the date of initial authentication and delivery of the Bonds to the Underwriters (anticipated to occur on or about September 16, 2021) and ending on August 14, 2024*. The Interest Payment Dates during the Initial Rate Period will be on each February 15 and August 15, commencing on February 15, 2022. Following the Initial Rate Period, the Bonds will bear interest at the rate or rates, as determined by the Remarketing Agent, dependent upon the interest rate mode in which the Bonds are remarketed and which mode may thereafter be changed from time to time, prior to conversion to a Fixed Rate, in the manner described below.

Rate Mode Changes after Initial Rate. While the Bonds bear interest at the Initial Rate or a Term Rate, the Paying Agent/Registrar is required to give notice to the owners of all Bonds of the conversion from one interest rate mode to another at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner's address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the date by which the Remarketing Agent will determine the Term Rate and the date by which the owners will be notified thereof; and (c) the procedure by which the Bonds will be subject to mandatory tender on the effective date of the change in the interest rate mode, including the date and time that any notices must be received.

Any conversion to a new interest mode and period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The opinion of Bond Counsel expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

While in the Initial Rate Period or a subsequent Term Rate period, Bonds may be converted to a different interest rate mode only at the expiration of such interest period (which conversion will take place on an Interest Payment Date).

* Preliminary, subject to change.

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the Initial Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the "Rate Determination Date".

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Bonds will be conclusive and binding on the holders of the Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Bonds or the rights of the owners thereof. In no event will the interest rate borne by the Bonds exceed the "Highest Rate", which (as provided in the Order) is the lesser of ____% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Notice of Rates. Owners will be notified by the Paying Agent/Registrar first-class mail of the Term Rate applicable to the Bonds promptly after the applicable Rate Determination Date.

Tender Provisions

No Optional Tender. The Bonds are not subject to optional tender.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, immediately after the end of the Initial Rate Period, on August 15, 2024*.

Payment of the Purchase Price (defined in the Order to mean, with respect to each Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District's discretion upon delivery of at least one day's notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Initial Rate Period or Term Rate period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at not less than par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to ____%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Bond that is not tendered on the mandatory tender date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory tender date. Thereafter, the owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the mandatory tender date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming mandatory tender date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

Conversion to Fixed Rate

The Order provides that, at the option of the District, the Bonds bearing interest at the Initial Rate or a Term Rate may be converted in whole or in part to a Fixed Rate or Rates on the first Interest Payment Date that occurs after conclusion of such interest period during which the Bonds bear interest at the Initial Rate or Term Rate. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent's setting of Fixed Rates on the Bonds to be converted on the hereinafter defined Fixed Rate Conversion Date, the Remarketing Agent shall determine the rates for such converted Bonds that will cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of Bonds. In addition, the District may reserve the right, exercisable at its sole option, to seek competitive bids on the Fixed Rate Conversion Date.

To exercise its option, the District must deliver to the Paying Agent/ Registrar, the Remarketing Agent (if any), and the Tender Agent written notice at least 45 calendar days prior to the Interest Payment Date on which the Fixed Rate mode is to become effective (the "Fixed Rate Conversion Date"). The Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than being subject to mandatory tender for purchase) as set forth in the Order with respect to Bonds bearing interest at an Initial Rate or a Term Rate. Notwithstanding the previous sentence, in connection with a conversion to a Fixed Rate, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Bonds on and after the Fixed Rate Conversion Date.

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion to a Fixed Rate Mode not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the date by which the District will determine and the Paying Agent/Registrar will notify the owners of the Fixed Rate Bonds; and (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds.

* Preliminary, subject to change

Redemption

Optional Redemption. The Bonds are not subject to optional redemption during the Initial Rate Period (except upon the occurrence of an Extraordinary Event, as described below), but are subject to redemption, at the District's option, on the first Interest Payment Date immediately succeeding the conclusion of the Initial Rate Period (which is also the Conversion Date). During a Stepped Rate Period, the Bonds are subject to redemption on any date.

Extraordinary Optional Redemption*. Upon the occurrence of an Extraordinary Event, the Bonds are subject to redemption prior to Stated Maturity, at the option of the District, on any date, in whole but not in part, in principal amounts of \$5,000 or any integral multiple thereof, at the price of par plus accrued interest to such date of redemption.

The term "Extraordinary Event" shall mean the occurrence of (i) passage of legislation by either house of the United States Congress, the effect of which (if enrolled) would be to impose, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds, or (ii) the execution by the President of the United States of an executive order that imposes, directly or indirectly, federal income taxation upon interest received on obligations of the general character of the Bonds.

Upon the occurrence of an Extraordinary Event, the District anticipates issuing tax-exempt refunding bonds prior to the effective date of such legislation and exercising the right to redeem and refund the Bonds with the proceeds of the refunding bonds.

Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity following the Initial Rate Period as follows:

Mandatory Redemption*

<u>Date</u>	<u>Amount</u>
February 15, 2047	\$
February 15, 2048	
February 15, 2049	
February 15, 2050	
February 15, 2051 ⁽¹⁾	

*Preliminary, subject to change
(1) Stated Maturity.

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notices of Redemption and DTC Notices. The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of the Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when the Bonds bear interest at the Initial Rate or a Term Rate. All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on the Conversion Date.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will 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 Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct 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 Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and 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 Bond Order, the District has reserved the right to amend the Bond Order without the consent of any holder for the purpose of amending or supplementing the Bond Order (a) to modify the Bond Order or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (b) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Bond Order regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (c) to increase or decrease the number of days specified for the giving of notices in Article III and to make corresponding changes to the period for notice of redemption of the Bonds provided that no decreases in any such number of days shall become effective except while the Bonds bear interest at a Term Rate and until 30 days after the Paying Agent/Registrar has given notice to the Owners of the Bonds; (d) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry-Only System for the Bonds; (e) to make any change to the Bond Order when (i) all Bonds have been tendered to the Remarketing Agent pursuant to the terms of the Bond Order, but have not been remarketed following such tender; provided, however, that the Remarketing Agent has received notice of such amendment or supplement; or (f) effective upon any Conversion Date to a new Term Rate Period or Fixed Rate Period to make any amendment affecting only the Bonds being converted.

The Bond Order further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Bond Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (a) changing the sinking fund requirements, Interest Payment Dates, rights to tender or the maturity or maturities of the Outstanding Bonds; (b) reduce the rate of interest borne by any of the Outstanding Bonds; (c) reduce the amount of the principal or purchase price of, or premium, if any, payable on the Outstanding Bonds; (d) modify the terms of payment of principal or purchase price of, premium, if any, or interest on the Outstanding Bonds, or impose any conditions with respect to such payments; (e) affect the rights of the Owners of fewer than all of the Outstanding Bonds; or (f) decrease the minimum percentage of the principal amount of Outstanding Bonds necessary for consent to any such amendment. In addition, if Bonds have been defeased and those Bonds shall not have in fact been actually paid in full, no amendment to the defeasance provisions of the Bond Order may be made without the consent of the Owner of each affected Bonds.

Defeasance

The Bond 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 Bond 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. At the time of the adoption of the Bond Order, the Board 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 Bond 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 the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Sources and Uses of Funds

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

Sources		
Par Amount of Bonds		\$
Premium		
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 Bond 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 Bond 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 Bond 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 Bond 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 Bond 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. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond 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 Bond 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 Offering Memorandum. 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 notices or other notices to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption notices 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 Offering Memorandum. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing

Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor and the Underwriters believe to be reliable, but none of the District, the Financial Advisor or the Underwriters take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Offering Memorandum

In reading this Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Offering Memorandum 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 Bond Order will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Bond 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 Bond 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, trust company, financial institution 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 will be printed and delivered to the beneficial owners thereof and thereafter 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 mail, first class postage prepaid to the new registered owner. 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 for determining the party to whom the interest payable on a Bond 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

Following a Fixed Rate Conversion Date, neither the District nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond called for redemption prior to maturity, in whole or in part, within thirty (30) days prior to the date fixed for redemption; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Bond.

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 CDBG 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 CDBG 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 CDBG Capacity 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
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⁾						
<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
<u>Fiscal Year</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>	<u>No. of Issues</u>	<u>Principal Amount</u>
Ended 8/31						
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_State_ment_-_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 Offering Memorandum 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 Offering Memorandum.

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 Offering Memorandum. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) 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 to 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.

2021 Regular and Special Legislative Sessions

The Texas Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 ("87th Regular Session"). During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor did order a first special session which commenced on July 8, 2021, and concluded on August 6, 2021. The Governor called a second special session which began on August 7, 2021 ("87th Special Session") and which must conclude within thirty days. The Governor's agenda for the 87th Special Session does not specifically address the school finance system, school operations or funding but does ask legislators to approve appropriations from additional available State general revenue for, among other purposes, property-tax relief. During the 87th Special Session, lawmakers must consider only the items denoted by the Governor on the agenda.

The District can make no representations or predictions regarding any actions the Legislature has taken or may take during the 87th Special Session concerning the substance or the effect of any legislation that previously passed, or may be passed during this special session or a future session of the Legislature.

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 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

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 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.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2020-2021 school year, the District was not designated as an "excess local revenue" district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenues" must be tested 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 responsibility of the Denton Central Appraisal District (the "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 “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein.

District and Taxpayer Remedies

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

Owners of certain property 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. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The 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 November 3, 2001 under Chapter 45, Texas Education Code.

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

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued in part as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has not utilized projected property values or State assistance to satisfy the \$0.50 test in connection with prior bond issues, but anticipates using \$1,000,000 of Tier One funds to satisfy the \$0.50 test in connection with the issuance of the Bonds and the Series 2021 Fixed Rate Bonds.

Public Hearing and Voter-Approval Tax Rate

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

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

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), Education Code, as amended, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district's current I&S tax rate. 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).

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.

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Denton County, Texas. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Denton County, Texas.

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

The District does not collect 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 the Denton Central Appraisal District.

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 does not grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has not granted the freeport exemption. The District has taken action to tax goods-in-transit.

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2020, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note 9 – Defined Benefit Pension Plan" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

In addition to its participation in 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 10. 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 the Plan 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.

During the year ended August 31, 2020, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$225 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 12. Health Care" of the Financial Statements.

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 S&P Global Ratings ("S&P") based upon the Texas Permanent School Fund Guarantee Program. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's underlying, unenhanced rating, including the Bonds, is "AA-" by S&P. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P 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 any rating. The rating of the Bonds is not a recommendation to buy, sell or hold the Bonds, and there is no assurance that any rating will continue for any given period of time, or that a rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price and marketability of the Bonds.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. 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 counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the 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 Offering Memorandum. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Offering Memorandum, 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", "Sources and Uses of Funds", and the third paragraph under "Notice of Redemption and DTC Notices", 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", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof, as to which no opinion will be expressed), "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 Bond 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., 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 to the District 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) the District's federal tax certificate and the Sufficiency Certificate of SAMCO Capital Markets, Inc. relating to the refunding of the Refunded Bonds, (b) covenants of the District with respect to arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced 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 taxable 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 to the District is conditioned on compliance by the District with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the District 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. The 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 such 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 facilities financed or refinanced with the proceeds of the Bonds or the Refunded Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. 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 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 principal 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 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.

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

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

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under Texas 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 Public Funds Investment Act (Chapter 2256, Government Code) as amended (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 clause (1) above, clause (12) below, or, if applicable, 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.

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 Texas 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.

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 May 31, 2021, the District had approximately \$3,815,586 (unaudited) invested in Lone Star Investment Pool and \$18,121,463 (unaudited) invested in TexStar Investment Pool (both of which operate as money market equivalents). 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 Offering Memorandum. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

FINANCIAL ADVISOR

SAMCO Capital Markets, Inc. 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 Offering Memorandum. 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 Offering Memorandum. Because of its 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 Offering Memorandum. The Financial Advisor has reviewed the information in this Offering Memorandum 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB. 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 Electronic Municipal Market Access (EMMA) 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 Offering Memorandum 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 Rule 15c2-12.

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". 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. The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under 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 Rule 15c2-12.

Availability of Information

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted 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 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. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions 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 in the primary offering 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

During the past five years, to the best of its knowledge, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

LITIGATION

In the opinion of District officials, 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 except as disclosed in the Offering Memorandum, 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 Offering Memorandum, 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 Offering Memorandum 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 Offering Memorandum 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 \$_____. 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 Offering Memorandum. The Underwriters have reviewed the information in this Offering Memorandum 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.

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.

One of the underwriters of the Bonds is BOK Financial Securities, Inc. which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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

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 Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Offering Memorandum 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 of 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 Bond Order contained in this Offering Memorandum are made subject to all of the provisions of such statutes, documents, and the Bond 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 Offering Memorandum for purposes of, and as that term is defined in the Rule.

The Order authorizing the issuance of the Bonds will also approve the form and content of this Offering Memorandum and any addenda, supplement or amendment thereto and will authorize its further use in the re-offering of the Bonds by the Purchaser and be approved by the Board for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/

President, Board of Trustees

ATTEST:

/s/

Secretary, Board of Trustees

APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

PONDER INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ^{(1) (2)}

2020/21 Total Valuation.....		\$ 998,177,526
Less Exemptions & Deductions:		
State Homestead Exemption	\$ 40,269,247	
State Over-65 Exemption	4,938,741	
Disabled Exemption	6,047,530	
Veterans Exemption	635,585	
Surviving Spouse Disabled Veteran Exemption	364,046	
Prorations and Other Partial Exemptions	63,701	
Productivity Loss	199,304,007	
Homestead Cap Loss	<u>7,331,390</u>	
	\$ 258,954,247	
2020/21 Net Taxable Valuation		\$ 739,223,279
2021/22 Net Taxable Valuation ⁽³⁾		\$ 826,540,370

(1) Source: Comptroller of Public Accounts - Property Tax Division. 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 \$23,968,706 for 2020/21.
 (3) Source: Denton Central Appraisal District Certified Value as of July 2021.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding ^{(1) (2)}		\$ 12,525,000
Plus: The Fixed Rate Series 2021 Bonds ⁽²⁾		60,000,000
Plus: The Adjustable Rate Series 2021 Bonds ⁽²⁾		<u>15,000,000</u>
Total Unlimited Tax Bonds ^{(1) (2)}		87,525,000
Less: Interest & Sinking Fund Balance (As of August 31, 2020) ⁽³⁾		<u>(5,926,667)</u>
Net General Obligation Debt		\$ 81,598,333
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽⁴⁾	9.87%	
2021 Population Estimate ⁽⁵⁾	7,025	
Per Capita Net Taxable Valuation	\$117,657	
Per Capita Net G.O. Debt	\$11,615	

(1) The District plans to adopt a redemption resolution calling for the early redemption of \$5,090,000 of principal from the Series 2012 Bonds and \$2,225,000 of principal from the Series 2013 Bonds on February 15, 2022 with cash on hand and current year interest and sinking fund tax collections.
 (2) Preliminary, subject to change.
 (3) Source: Ponder ISD Audited Financial Statements.
 (4) The ratio of Net G.O. Debt to Net Taxable Valuation above does not include the portion of the District's outstanding debt service that is payable from any debt subsidies that may be provided by the State of Texas. The District does not expect to receive state funding assistance for voted bond debt service for its unlimited tax debt service for the 2020/21 fiscal year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement and "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 outstanding obligations.
 (5) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁴⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁵⁾	Total ⁽⁵⁾
2006/07	\$ 811,729,842 ⁽¹⁾	\$ 1.5526 ⁽⁶⁾	98.51%	99.39%
2007/08	824,213,648 ⁽¹⁾	1.2282 ⁽⁶⁾	98.68%	100.13%
2008/09	937,696,783 ⁽¹⁾	1.3212	99.00%	99.97%
2009/10	982,957,523 ⁽¹⁾	1.3090	99.05%	99.82%
2010/11	920,519,846 ⁽¹⁾	1.3249	99.05%	99.80%
2011/12	875,474,249 ⁽¹⁾	1.3446	99.11%	100.05%
2012/13	811,507,957 ⁽¹⁾	1.3533	98.44%	99.75%
2013/14	739,487,459 ⁽¹⁾	1.3850	97.81%	98.62%
2014/15	727,220,852 ⁽¹⁾	1.3808	98.07%	99.06%
2015/16	713,458,248 ^{(1) (3)}	1.3875	98.05%	99.82%
2016/17	588,673,061 ^{(1) (3)}	1.4678	98.39%	99.50%
2017/18	608,670,381 ^{(1) (3)}	1.4678	97.75%	98.88%
2018/19	743,128,179 ^{(1) (3)}	1.4678	99.24%	106.21%
2019/20	791,493,830 ^{(1) (3)}	1.4678 ⁽⁷⁾	98.62%	99.19%
2020/21	739,223,279 ^{(1) (3)}	1.4642	(In Process of Collection)	
2021/22	826,540,370 ^{(2) (3)}			

(1) Source: Comptroller of Public Accounts - Property Tax Division.
 (2) Source: Certified Values from the Denton Central Appraisal District as of July 2021.
 (3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.
 (4) Source: Ponder 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 Offering Memorandum.
 (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

	2016/17	2017/18	2018/19	2019/20 ⁽¹⁾	2020/21 ⁽¹⁾
Maintenance & Operations	\$1.0400	\$1.0400	\$1.0400	\$0.9700	\$0.9664
Debt Service	\$0.4278	\$0.4278	\$0.4278	\$0.4978	\$0.4978
Total Tax Rate	\$1.4678	\$1.4678	\$1.4678	\$1.4678	\$1.4642

(1) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2020/21 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	\$ 811,729,842	\$ 20,000,000	2.46%
2007/08	824,213,648	32,835,000	3.98%
2008/09	937,696,783	31,695,000	3.38%
2009/10	982,957,523	30,505,000	3.10%
2010/11	920,519,846	29,260,000	3.18%
2011/12	875,474,249	27,610,000	3.15%
2012/13	811,507,957	26,120,000	3.22%
2013/14	739,487,459	24,615,000	3.33%
2014/15	727,220,852	23,065,000	3.17%
2015/16	713,458,248	21,465,000	3.01%
2016/17	588,673,061	19,715,000	3.35%
2017/18	608,670,381	18,005,000	2.96%
2018/19	743,128,179	16,240,000	2.19%
2019/20	791,493,830	14,410,000	1.82%
2020/21	739,223,279	12,525,000	1.69%
2021/22	826,540,370 ⁽³⁾	85,465,000 ⁽⁴⁾	10.34%

(1) At fiscal year end.

(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) Source: Certified Values from the Denton Central Appraisal District as of July 2021.

(4) Preliminary, subject to change. Includes the Fixed Rate Series 2021 Bonds and Adjustable Rate Series 2021 Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Denton County	\$ 571,605,000	0.71%	\$ 4,058,396
Denton, City of	379,788,414	0.07%	265,852
Northlake, Town of	23,925,000	0.27%	64,598
Ponder, Town of	7,587,077	100.00%	7,587,077
Total Overlapping Debt ⁽¹⁾			\$ 11,975,922
Ponder Independent School District ⁽²⁾			81,598,333
Total Direct & Overlapping Debt ⁽²⁾			\$ 93,574,255
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		11.32%	
Per Capita Direct & Overlapping Debt		\$13,320	

(1) Equals gross debt less self-supporting debt.

(2) Includes the Fixed Rate Series 2021 Bonds and Adjustable Rate Series 2021 Bonds.

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.

PRINCIPAL TAXPAYERS ⁽¹⁾**2020/21 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Devon Energy Production	Oil & Gas	\$ 50,325,294	6.81%
Atmos Energy	Oil & Gas	23,864,930	3.23%
SWG Pipeline LLC	Pipeline	16,927,330	2.29%
Lime Rock Resources IV-A LP	Oil & Gas	7,726,336	1.05%
Oncor Electric Delivery	Electric Utility	7,490,780	1.01%
BNSF Railway	Railway	7,171,300	0.97%
Energy Transfer Fuel LP	Oil & Gas	6,532,110	0.88%
Enterprise Texas Pipeline LP	Pipeline	6,423,410	0.87%
Syracuse Food Group LLC	Food Processing	5,133,186	0.69%
Bedrock Production LLC	Oil & Gas	3,915,287	0.53%
		<u>\$ 135,509,963</u>	<u>18.33%</u>

2019/20 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Devon Energy Production	Oil & Gas	\$ 95,155,918	12.02%
Atmos Energy	Oil & Gas	21,646,810	2.73%
SWG Pipeline LLC	Pipeline	17,308,886	2.19%
Lime Rock Resources IV-A LP	Oil & Gas	15,785,564	1.99%
1849 Energy Partners Operating LLC	Oil & Gas	9,797,280	1.24%
Energy Transfer Fuel LP	Oil & Gas	8,501,650	1.07%
Bedrock Production LLC	Oil & Gas	7,073,774	0.89%
BNSF Railway	Railway	6,585,660	0.83%
Enterprise Texas Pipeline LP	Pipeline	6,322,760	0.80%
Oncor Electric Delivery	Electric Utility	6,244,303	0.79%
		<u>\$ 194,422,605</u>	<u>24.56%</u>

2018/19 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Devon Energy Production	Oil & Gas	\$ 113,876,726	15.32%
Atmos Energy	Oil & Gas	17,576,080	2.37%
Burlington Resources Oil & Gas Co.	Oil & Gas	15,481,987	2.08%
SWG Pipeline LLC	Pipeline	13,980,150	1.88%
Aethon Energy Operating LLC	Oil & Gas	8,329,280	1.12%
Energy Transfer Fuel LP	Oil & Gas	8,175,100	1.10%
Enervest Operating LLC	Oil & Gas	7,593,339	1.02%
BNSF Railway	Railway	6,282,090	0.85%
Enterprise Texas Pipeline LP	Pipeline	5,506,660	0.74%
Oncor Electric Delivery	Electric Utility	5,302,960	0.71%
		<u>\$ 202,104,372</u>	<u>27.20%</u>

(1) Source: Comptroller of Public Accounts - Property Tax Division.

Note: As shown in the tables above, the top ten taxpayers in the District currently account for approximately 18.33% of the District's tax base. Adverse developments in economic conditions, or to a large taxpayer (such as Devon Energy Production, whose assets comprise 6.81% of the District's total assessed valuation), could adversely impact the businesses that own properties in the District, and the tax values in the District, resulting in less local tax revenue.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY ⁽¹⁾

<u>Category</u>	<u>2020/21</u>	<u>% of Total</u>	<u>2019/20</u>	<u>% of Total</u>	<u>2018/19</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 428,980,097	42.98%	\$ 413,559,505	38.71%	\$ 353,025,626	36.07%
Real, Residential, Multi-Family	2,836,487	0.28%	2,545,362	0.24%	2,414,184	0.25%
Real, Vacant Lots/Tracts	10,786,546	1.08%	9,717,785	0.91%	7,807,060	0.80%
Real, Qualified Land & Improvements	206,595,209	20.70%	214,969,033	20.12%	187,312,864	19.14%
Real, Non-Qualified Land & Improvements	106,947,895	10.71%	103,218,556	9.66%	89,932,037	9.19%
Real, Commercial & Industrial	44,290,472	4.44%	40,949,398	3.83%	36,574,854	3.74%
Oil & Gas	87,819,030	8.80%	172,265,187	16.13%	194,063,984	19.83%
Utilities	71,769,591	7.19%	75,459,863	7.06%	65,541,010	6.70%
Tangible Personal, Commercial	20,613,445	2.07%	17,089,354	1.60%	17,068,586	1.74%
Tangible Personal, Industrial	13,190,322	1.32%	14,017,091	1.31%	16,385,109	1.67%
Tangible Personal, Mobile Homes & Other	3,568,113	0.36%	3,393,730	0.32%	2,674,738	0.27%
Tangible Personal, Residential Inventory	340,674	0.03%	646,199	0.06%	5,571,317	0.57%
Tangible Personal, Special Inventory	439,645	0.04%	462,677	0.04%	297,375	0.03%
Total Appraised Value	\$ 998,177,526	100.00%	\$ 1,068,293,740	100.00%	\$ 978,668,744	100.00%
Less:						
Homestead Cap Adjustment	\$ 7,331,390		\$ 17,982,834		\$ 9,251,968	
Productivity Loss	199,304,007		208,131,344		180,545,305	
Exemptions ⁽²⁾	52,318,850		50,685,732		45,743,292	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 258,954,247</u>		<u>\$ 276,799,910</u>		<u>\$ 235,540,565</u>	
Net Taxable Assessed Valuation	\$ 739,223,279		\$ 791,493,830		\$ 743,128,179	

<u>Category</u>	<u>2017/18</u>	<u>% of Total</u>	<u>2016/17</u>	<u>% of Total</u>	<u>2015/16</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 297,658,451	35.62%	\$ 242,037,564	30.80%	\$ 212,608,722	23.49%
Real, Residential, Multi-Family	2,166,103	0.26%	2,155,597	0.27%	2,150,885	0.24%
Real, Vacant Lots/Tracts	12,810,459	1.53%	10,555,734	1.34%	7,691,802	0.85%
Real, Qualified Land & Improvements	182,819,276	21.88%	161,653,804	20.57%	160,923,206	17.78%
Real, Non-Qualified Land & Improvements	86,080,225	10.30%	86,458,932	11.00%	80,794,311	8.93%
Real, Commercial & Industrial	31,061,094	3.72%	26,718,309	3.40%	25,260,679	2.79%
Oil & Gas	148,957,125	17.83%	177,961,556	22.65%	330,480,636	36.51%
Utilities	42,125,104	5.04%	51,167,909	6.51%	57,763,310	6.38%
Tangible Personal, Commercial	16,832,518	2.01%	16,566,003	2.11%	14,431,680	1.59%
Tangible Personal, Industrial	12,302,181	1.47%	7,481,514	0.95%	10,914,130	1.21%
Tangible Personal, Mobile Homes & Other	2,613,869	0.31%	2,676,392	0.34%	1,931,720	0.21%
Tangible Personal, Residential Inventory	-	0.00%	105,567	0.01%	38,309	0.00%
Tangible Personal, Special Inventory	156,883	0.02%	202,017	0.03%	153,766	0.02%
Total Appraised Value	\$ 835,583,288	100.00%	\$ 785,740,898	100.00%	\$ 905,143,156	100.00%
Less:						
Homestead Cap Adjustment	\$ 10,140,531		\$ 4,564,112		\$ 1,903,185	
Productivity Loss	176,171,306		154,659,784		153,940,433	
Exemptions ⁽²⁾	40,601,070		37,843,941		35,841,290	
Total Exemptions/Deductions ⁽³⁾	<u>\$ 226,912,907</u>		<u>\$ 197,067,837</u>		<u>\$ 191,684,908</u>	
Net Taxable Assessed Valuation	\$ 608,670,381		\$ 588,673,061		\$ 713,458,248	

(1) Source: Comptroller of Public Accounts - Property Tax Division.

(2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(3) 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⁾	Plus:	Plus:	Total ^{(1) (2)}	Bonds Unpaid At Fiscal Year End	Percent of Principal Retired
		The Fixed Rate Series 2021 Bonds ⁽²⁾	The Adjustable Rate Series 2021 Bonds ⁽²⁾			
2022	\$ 1,940,000.00	\$ 120,000.00	\$ -	\$ 2,060,000.00	\$ 85,465,000.00	2.35%
2023	1,995,000.00	1,105,000.00	-	3,100,000.00	82,365,000.00	5.90%
2024	2,055,000.00	1,160,000.00	-	3,215,000.00	79,150,000.00	9.57%
2025	2,115,000.00	960,000.00	-	3,075,000.00	76,075,000.00	13.08%
2026	2,180,000.00	995,000.00	-	3,175,000.00	72,900,000.00	16.71%
2027	2,240,000.00	1,050,000.00	-	3,290,000.00	69,610,000.00	20.47%
2028		2,080,000.00	-	2,080,000.00	67,530,000.00	22.84%
2029		2,185,000.00	-	2,185,000.00	65,345,000.00	25.34%
2030		2,295,000.00	-	2,295,000.00	63,050,000.00	27.96%
2031		2,400,000.00	-	2,400,000.00	60,650,000.00	30.71%
2032		2,470,000.00	-	2,470,000.00	58,180,000.00	33.53%
2033		2,520,000.00	-	2,520,000.00	55,660,000.00	36.41%
2034		2,575,000.00	-	2,575,000.00	53,085,000.00	39.35%
2035		2,625,000.00	-	2,625,000.00	50,460,000.00	42.35%
2036		2,680,000.00	-	2,680,000.00	47,780,000.00	45.41%
2037		2,730,000.00	-	2,730,000.00	45,050,000.00	48.53%
2038		2,790,000.00	-	2,790,000.00	42,260,000.00	51.72%
2039		2,845,000.00	-	2,845,000.00	39,415,000.00	54.97%
2040		2,900,000.00	-	2,900,000.00	36,515,000.00	58.28%
2041		2,960,000.00	-	2,960,000.00	33,555,000.00	61.66%
2042		3,020,000.00	-	3,020,000.00	30,535,000.00	65.11%
2043		3,080,000.00	-	3,080,000.00	27,455,000.00	68.63%
2044		3,145,000.00	-	3,145,000.00	24,310,000.00	72.23%
2045		3,215,000.00	-	3,215,000.00	21,095,000.00	75.90%
2046		3,285,000.00	-	3,285,000.00	17,810,000.00	79.65%
2047		2,810,000.00	550,000.00	3,360,000.00	14,450,000.00	83.49%
2048			3,450,000.00	3,450,000.00	11,000,000.00	87.43%
2049			3,560,000.00	3,560,000.00	7,440,000.00	91.50%
2050			3,665,000.00	3,665,000.00	3,775,000.00	95.69%
2051			3,775,000.00	3,775,000.00	-	100.00%
Total	<u>\$ 12,525,000.00</u>	<u>\$ 60,000,000.00</u>	<u>\$ 15,000,000.00</u>	<u>\$ 87,525,000.00</u>		

(1) Includes the Series 2012, Series 2013, and Series 2017 Bonds. The District plans to adopt a redemption resolution calling for the early redemption of \$5,090,000 of principal from the Series 2012 Bonds and \$2,225,000 of principal from the Series 2013 Bonds on February 15, 2022 with cash on hand and current year interest and sinking fund tax collections.

(2) Preliminary, subject to change.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Plus:			Plus:			Combined Total ^{(1) (2) (3) (4)}
		The Fixed Rate Series 2021 Bonds ⁽²⁾			The Adjustable Rate Series 2021 Bonds ^{(2) (3)}			
		Principal	Interest	Total	Principal	Interest	Total	
2022	\$ 2,299,625.00	\$ 120,000.00	\$ 1,484,708.30	\$ 1,604,708.30	\$ -	\$ 171,354.17	\$ 171,354.17	\$ 4,075,687.47
2023	2,297,950.00	1,105,000.00	1,594,262.50	2,699,262.50	-	187,500.00	187,500.00	5,184,712.50
2024	2,299,575.00	1,160,000.00	1,537,637.50	2,697,637.50	-	187,500.00	187,500.00	5,184,712.50
2025	2,298,400.00	960,000.00	1,484,637.50	2,444,637.50	-	450,000.00	450,000.00	5,193,037.50
2026	2,300,312.50	995,000.00	1,435,762.50	2,430,762.50	-	450,000.00	450,000.00	5,181,075.00
2027	2,301,075.00	1,050,000.00	1,384,637.50	2,434,637.50	-	450,000.00	450,000.00	5,185,712.50
2028		2,080,000.00	1,306,387.50	3,386,387.50	-	450,000.00	450,000.00	3,836,387.50
2029		2,185,000.00	1,199,762.50	3,384,762.50	-	450,000.00	450,000.00	3,834,762.50
2030		2,295,000.00	1,087,762.50	3,382,762.50	-	450,000.00	450,000.00	3,832,762.50
2031		2,400,000.00	983,287.50	3,383,287.50	-	450,000.00	450,000.00	3,833,287.50
2032		2,470,000.00	911,487.50	3,381,487.50	-	450,000.00	450,000.00	3,831,487.50
2033		2,520,000.00	861,587.50	3,381,587.50	-	450,000.00	450,000.00	3,831,587.50
2034		2,575,000.00	810,637.50	3,385,637.50	-	450,000.00	450,000.00	3,835,637.50
2035		2,625,000.00	758,637.50	3,383,637.50	-	450,000.00	450,000.00	3,833,637.50
2036		2,680,000.00	705,587.50	3,385,587.50	-	450,000.00	450,000.00	3,835,587.50
2037		2,730,000.00	651,487.50	3,381,487.50	-	450,000.00	450,000.00	3,831,487.50
2038		2,790,000.00	596,287.50	3,386,287.50	-	450,000.00	450,000.00	3,836,287.50
2039		2,845,000.00	539,937.50	3,384,937.50	-	450,000.00	450,000.00	3,834,937.50
2040		2,900,000.00	482,487.50	3,382,487.50	-	450,000.00	450,000.00	3,832,487.50
2041		2,960,000.00	423,887.50	3,383,887.50	-	450,000.00	450,000.00	3,833,887.50
2042		3,020,000.00	364,087.50	3,384,087.50	-	450,000.00	450,000.00	3,834,087.50
2043		3,080,000.00	303,087.50	3,383,087.50	-	450,000.00	450,000.00	3,833,087.50
2044		3,145,000.00	238,871.88	3,383,871.88	-	450,000.00	450,000.00	3,833,871.88
2045		3,215,000.00	171,296.88	3,386,296.88	-	450,000.00	450,000.00	3,836,296.88
2046		3,285,000.00	100,181.25	3,385,181.25	-	450,000.00	450,000.00	3,835,181.25
2047		2,810,000.00	31,612.50	2,841,612.50	550,000.00	441,750.00	991,750.00	3,833,362.50
2048					3,450,000.00	381,750.00	3,831,750.00	3,831,750.00
2049					3,560,000.00	276,600.00	3,836,600.00	3,836,600.00
2050					3,665,000.00	168,225.00	3,833,225.00	3,833,225.00
2051					3,775,000.00	56,625.00	3,831,625.00	3,831,625.00
	<u>\$ 13,796,937.50</u>	<u>\$ 60,000,000.00</u>	<u>\$ 21,450,008.31</u>	<u>\$ 81,450,008.31</u>	<u>\$ 15,000,000.00</u>	<u>\$ 11,771,304.17</u>	<u>\$ 26,771,304.17</u>	<u>\$ 122,018,249.98</u>

(1) Includes the Series 2012, Series 2013, and Series 2017 Bonds. The District plans to adopt a redemption resolution calling for the early redemption of \$5,090,000 of principal from the Series 2012 Bonds and \$2,225,000 of principal from the Series 2013 Bonds on February 15, 2022 with cash on hand and current year interest and sinking fund tax collections.
(2) Preliminary, subject to change.
(3) For illustration purposes, interest on the Adjustable Rate Series 2021 Bonds is calculated at an assumed Term Rate of 1.25% through August 15, 2024. For illustration purposes, interest is calculated at an assumed rate of 3.00% thereafter through stated maturity (which is consistent with the District's planning estimate). Actual rates applicable to this bond at conclusion of a rate period are subject to market conditions at the time or times that this bond is remarketed. The Highest Rate that the bond interest rate could reset to is, commencing on or after August 15, 2024, is ___%.
(4) 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 2021/22. 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" herein.

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS

Projected Maximum Debt Service Requirement ⁽¹⁾	\$ 5,193,037.50
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽²⁾	45,000.00
Projected Net Debt Service Requirement	<u>\$ 5,148,037.50</u>
 \$0.63555 Tax Rate @ 98% Collections Produces ⁽³⁾	 \$ 5,148,037.65
2021/22 Net Taxable Valuation	\$ 826,540,370

(1) Includes the Fixed Rate Series 2021 Bonds and Adjustable Rate Series 2021 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 Fixed Rate Series 2021 Bonds and Adjustable Rate Series 2021 Bonds, the District will not have authorized but unissued unlimited ad valorem tax bonds from the May 1, 2021 bond election or any other bond election, however, 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	\$ 10,887,913	\$ 10,274,663	\$ 11,179,808	\$ 11,927,985	\$ 13,583,810
Revenues:					
Local and Intermediate Sources	\$ 9,066,626	\$ 6,914,433	\$ 8,120,755	\$ 8,156,716	\$ 7,840,649
State Sources	4,384,283	6,344,388	6,696,173	7,595,803	7,137,295
Federal Sources & Other	128,592	153,680	134,544	215,599	76,677
Total Revenues	\$ 13,579,501	\$ 13,412,501	\$ 14,951,472	\$ 15,968,118	\$ 15,054,621
Expenditures:					
Instruction	\$ 7,295,994	\$ 7,313,221	\$ 7,361,113	\$ 8,081,809	\$ 7,956,250
Instructional Resources & Media Services	164,513	158,532	154,881	156,150	168,559
Curriculum & Instructional Staff Development	171,573	172,269	193,594	173,016	180,925
School Leadership	684,302	749,531	768,165	831,236	934,192
Guidance, Counseling & Evaluation Services	294,604	235,159	305,599	291,822	297,042
Health Services	58,001	59,125	58,396	21,738	59,555
Student (Pupil) Transportation	480,887	657,636	399,057	765,699	592,281
Cocurricular/Extracurricular Activities	568,413	544,765	576,951	620,643	564,346
General Administration	699,358	656,705	687,717	709,953	828,485
Plant Maintenance and Operations	2,245,798	1,488,600	2,941,050	1,821,025	2,330,256
Security and Monitoring Services	10,330	10,170	101,115	48,829	23,115
Data Processing Services	142,722	151,560	286,535	178,719	402,453
Facilities Acquisition and Construction	1,051,044	-	13,638	153,019	1,472,082
Payments to Shared Service Arrangements	222,479	218,270	280,479	398,227	499,849
Payments to Juvenile Justice Alternative Ed. Program	-	-	18,590	-	-
Other Intergovernmental Charges	102,733	91,813	56,415	60,408	66,858
Total Expenditures	\$ 14,192,751	\$ 12,507,356	\$ 14,203,295	\$ 14,312,293	\$ 16,376,248
Excess (Deficiency) of Revenues over Expenditures	\$ (613,250)	\$ 905,145	\$ 748,177	\$ 1,655,825	\$ (1,321,627)
Other Resources and (Uses):					
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ 25,081
Transfers Out (Use)	-	-	-	-	(73,311)
Total Other Resources (Uses)	\$ -	\$ -	\$ -	\$ -	\$ (48,230)
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ (613,250)	\$ 905,145	\$ 748,177	\$ 1,655,825	\$ (1,369,857)
Ending Fund Balance ⁽²⁾	\$ 10,274,663	\$ 11,179,808	\$ 11,927,985	\$ 13,583,810	\$ 12,213,953

(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 2020/21 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" herein.

(2) During the 2020-2021 fiscal year, the District used approximately \$1.5 million of the General Fund balance predominately for design and architectural fees associated with the capital projects being financed with the Bonds and, accordingly, estimates the General Fund balance for fiscal year ending August 31, 2021 will be approximately \$10.71 million.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ending August 31				
	2016	2017	2018	2019	2020
Revenues:					
Program Revenues:					
Charges for Services	\$ 284,098	\$ 563,329	\$ 1,645,764	\$ 550,718	\$ 342,961
Operating Grants and Contributions	1,587,954	1,643,175	(272,053)	1,893,025	2,131,869
General Revenues:					
Property Taxes Levied for General Purposes	8,065,613	6,479,065	6,694,105	7,301,382	7,534,005
Property Taxes Levied for Debt Service	2,684,463	2,651,955	2,746,155	3,017,513	3,856,477
State Aid - Formula Grants	3,779,026	5,717,795	6,023,095	6,936,516	6,318,948
Investment Earnings	82,407	127,961	237,254	493,192	349,824
Miscellaneous	251,598	69,991	88,674	85,133	53,409
Special Item - Gain on Asset Disposal	185,117	-	-	-	-
Total Revenue	<u>\$ 16,920,276</u>	<u>\$ 17,253,271</u>	<u>\$ 17,162,994</u>	<u>\$ 20,277,479</u>	<u>\$ 20,587,493</u>
Expenses:					
Instruction	\$ 8,560,425	\$ 8,523,350	\$ 6,250,477	\$ 9,564,656	\$ 9,530,675
Instruction Resources & Media Services	195,043	187,450	147,355	187,362	202,485
Curriculum & Staff Development	179,878	176,461	126,253	178,978	190,589
School Leadership	730,112	781,163	534,703	881,233	994,641
Guidance, Counseling & Evaluation Services	322,050	253,465	213,603	319,625	324,944
Health Services	63,504	64,478	59,525	27,094	68,235
Student Transportation	555,540	575,825	465,384	570,773	587,017
Food Service	716,779	736,621	608,734	782,789	843,072
Cocurricular/Extracurricular Activities	923,688	1,039,814	977,332	1,129,614	1,048,920
General Administration	743,658	686,742	544,245	747,588	877,463
Plant Maintenance & Operations	1,562,744	1,506,871	2,894,126	1,829,161	2,433,973
Security and Monitoring Services	10,330	10,170	101,115	51,062	28,652
Data Processing Services	153,812	161,018	142,991	213,045	526,462
Community Services	591	591	591	591	591
Debt Service - Interest on Long-term Debt	738,960	566,460	467,832	450,746	372,038
Debt Service - Bond Issuance Cost and Fees	2,000	151,296	68,627	55,958	60,098
Capital Outlay	1,162	-	13,638	-	-
Payments to Fiscal Agent/Member Districts of SSA	222,479	218,270	280,479	398,227	499,849
Payments to Juvenile Justice Alternative Ed. Programs	-	-	18,590	-	-
Other Intergovernmental Charges	102,733	91,813	56,415	60,408	66,858
Total Expenditures	<u>\$ 15,785,488</u>	<u>\$ 15,731,858</u>	<u>\$ 13,972,015</u>	<u>\$ 17,448,910</u>	<u>\$ 18,656,562</u>
Change in Net Assets	\$ 1,134,788	\$ 1,521,413	\$ 3,190,979	\$ 2,828,569	\$ 1,930,931
Beginning Net Assets	\$ 20,325,741	\$ 21,460,529	\$ 22,981,942	\$ 19,431,357	\$ 22,259,926
Prior Period Adjustment	\$ -	\$ -	\$ (6,741,564) ⁽²⁾	\$ -	\$ -
Ending Net Assets	<u>\$ 21,460,529</u>	<u>\$ 22,981,942</u>	<u>\$ 19,431,357</u>	<u>\$ 22,259,926</u>	<u>\$ 24,190,857</u>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34.

(2) In 2018, the District adopted GASB Statement No. 75 which required the District to assume their proportionate share of the net OPEB liability of the Texas Public School Retired Employees Group Insurance Program administered by the Teacher Retirement System of Texas.

APPENDIX B

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

PONDER INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Ponder Independent School District is an agricultural area which includes the Town of Ponder. The Town of Ponder is located on FM 156, north of Fort Worth and West of Denton. Denton County (the "County") is located in north central Texas and was created in 1846 from Fannin County. The county seat is Denton. The current estimated population of the District is approximately 7,025.

Source: *Texas Municipal Reports for Ponder ISD and Denton County.*

Enrollment Statistics

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2006	999
2007	1,077
2008	1,114
2009	1,194
2010	1,233
2011	1,227
2012	1,253
2013	1,254
2014	1,283
2015	1,272
2016	1,281
2017	1,330
2018	1,414
2019	1,489
2020	1,553
Current	1,564

District Staff

Teachers	104
Teachers' Aides & Secretaries	29.7
Auxiliary Personnel	37.6
Administrators	9.4
Other	11.7
Total	192.4

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Elementary School	PK - 5	713	665	2004	NA
Junior High School	6 - 8	381	350	1986	1999
High School	9 - 12	470	475	1999	NA

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Ponder ISD	Education	192

Unemployment Rates

	<u>June 2019</u>	<u>June 2020</u>	<u>June 2021</u>
Denton County	3.2%	9.1%	5.2%
State of Texas	3.8%	10.3%	6.6%

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.*

**PONDER INDEPENDENT SCHOOL DISTRICT
ADJUSTABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$**

AS BOND COUNSEL for the Ponder 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**

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

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

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CERTIFICATE OF BOARD

Ponder Independent School District
Name of School District

Denton
County

061-906
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2020, at a meeting of the Board of Trustees of such school district on the 19~~th~~ day of November, 2020.


Signature of Board Secretary


Signature of Board President

Members:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED
PUBLIC ACCOUNTANTS

**HANKINS, EASTUP, DEATON,
TONN & SEAY**
A PROFESSIONAL CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST
P.O. BOX 977
DENTON, TX 76202-0977
TEL: (940) 387-8563
FAX (940) 383-4746

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ponder Independent School District (the 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 Standard* 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 District'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 Ponder Independent School District as of August 31, 2020, and the respective changes in financial position and the respective budgetary comparison for the General Fund 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 5 through 10 and the Teacher Retirement System schedules on pages 52 through 58 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 Ponder Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules are the responsibility of management and were derived from and relate 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 and individual nonmajor fund financial statements and the required TEA schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2020 on our consideration of Ponder Independent School District's internal control over financial reporting and on our test 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 Ponder Independent School District's internal control over financial reporting and compliance.



Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

November 18, 2020

**PONDER INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2020
(UNAUDITED)**

As management of Ponder Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2020. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of Ponder Independent School District exceeded its liabilities and deferred inflows at the close of the most recent fiscal period by \$24,190,857 (net position). Of this amount, \$4,603,744 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fiscal policies.
- The District's total net position increased by \$1,930,931 during the fiscal year from the result of current year operations.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$18,222,604. \$11,977,966 of this total amount is unassigned and available for use within the District's policies.
- At the end of the current fiscal period, the unassigned fund balance for the general fund of \$11,977,966 was 73.1% of the total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 13 and 14). 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 15) 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 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 13. 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, deferred outflows of resources, deferred inflows of resources and liabilities at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (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 or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current 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, deferred outflows of resources, deferred inflows of resources 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 nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Business-type activities—The District does not have any programs in which it charges a fee to “customers” to help it cover all or most of the cost of services it provides. Thus, the District had no business-type activities during the current fiscal year.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position on page 20. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in this fund are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

In accordance with GASB Statement #34, the following analysis presents both current and prior year data and discusses significant changes in the accounts. The 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 \$22,259,926 to \$24,190,857. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$4,603,744 at August 31, 2020. This increase in governmental net position was the result of three key factors. First, the District's revenues exceeded expenditures by \$3,651,074 (as adjusted for the effects of capital outlay and debt service principal payments.) Second, the District recorded depreciation expense, which is a non-cash expense that reduces the value of District assets, in the amount of \$1,412,618. Third, various adjustments totaling \$307,525 were posted to revenues and expenses to account for interest accruals, tax revenues earned during the period under the full accrual method of accounting and pension and OPEB expense.

Table I
NET POSITION

	Governmental Activities	
	2020	2019
Current and other assets	\$18,786,999	\$19,134,286
Capital assets	29,314,018	28,152,847
Deferred outflows of resources	2,628,737	2,830,335
Total assets and deferred outflows of resources	50,729,754	50,117,468
Current liabilities	1,259,499	931,198
Long-term liabilities	22,630,534	25,030,216
Total liabilities	23,890,033	25,961,414
Deferred inflows of resources	2,648,864	1,896,128
Total liabilities and deferred outflows of resources	26,538,897	27,857,542
Net Position:		
Net investment in capital assets	13,660,446	11,634,035
Restricted	5,926,667	4,306,847
Unrestricted	4,603,744	6,319,044
Total net position	\$24,190,857	\$22,259,926

Table II
CHANGES IN NET POSITION

	Governmental Activities		Increase (Decrease)
	2020	2019	
Revenues:			
Program Revenues:			
Charges for services	\$ 342,961	\$ 550,718	\$ (207,757)
Operating grants and contributions	2,131,869	1,893,025	238,844
General Revenues:			
Maintenance and operations taxes	7,534,005	7,301,382	232,623
Debt service taxes	3,856,477	3,017,513	838,964
State aid	6,318,948	6,936,516	(617,568)
Investment earnings	349,824	493,192	(143,368)
Miscellaneous	53,409	85,133	(31,724)
Total Revenue	<u>20,587,493</u>	<u>20,277,479</u>	<u>310,014</u>
Expenses:			
Instruction, curriculum and media service	9,733,160	9,930,996	(197,836)
Instructional and school leadership	1,185,230	881,233	303,997
Student support services	980,196	917,492	62,704
Child nutrition	843,072	782,789	60,283
Cocurricular activities	1,048,920	1,129,614	(80,694)
General administration	877,463	747,588	129,875
Plant maintenance, security and data proc	2,989,087	2,093,268	895,819
Community services	591	591	-
Debt services	432,136	506,704	(74,568)
Intergovernmental charges	566,707	458,635	108,072
Total Expenses	<u>18,656,562</u>	<u>17,448,910</u>	<u>1,207,652</u>
Increase in Net Position	1,930,931	2,828,569	(897,638)
Net Position - beginning of year	22,259,926	19,431,357	2,828,569
Net Position - end of year	<u>\$ 24,190,857</u>	<u>\$ 22,259,926</u>	<u>\$ 1,930,931</u>

The following is a synopsis of significant issues that Ponder ISD dealt with in the school year 2019-2020:

- The reduction of state aid due to the phasing out of ASATR. The final year of the legislative mandated hardship grant reduced the state aid revenue decrease but the District remained well below ASATR funding levels.
- Increase in student enrollment due to new housing construction and planning for facility improvements to accommodate the student growth led to increased expenditures with architects, engineers and design professionals.
- 2019-20 was a fiscal year that found the District needing to address a failure in the exterior walls on the north and west side of the high school building to keep water from penetrating to the inside, forcing the District to contract for waterproofing repairs.
- The COVID-19 Pandemic created burdens on Ponder ISD just as it did the rest of the world. In order to provide the safety level necessary the District expended many unforeseen funds. In addition to safety and sanitation equipment and materials the District was obligated to payroll expenses to make the facilities safe and ready.

The cost of all governmental activities for the current fiscal year was \$18,656,562. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$11,390,482 because some of the costs were paid by those who directly benefited from the programs (\$342,961) or by State equalization funding (\$6,318,948).

THE DISTRICT'S FUNDS

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

As the District completed the year, its governmental funds (as presented in the Balance Sheet on page 15) reported combined fund balance of \$18,222,604, which is \$247,285 higher than last year's total of \$17,975,319.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund was \$12,213,953. The fund balance of the General Fund decreased by \$1,369,857 this year compared to a \$1,655,825 increase the prior year. Revenues were \$913,497 or 5.72% lower than the prior year and expenditures were \$2,063,955 or 14.42% higher than the prior year.

Over the course of the year, the Board of Trustees revised the District's budget at times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2019). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$12,213,953 reported on page 15 differs from the General Fund's budgetary fund balance of \$12,154,863 reported in the budgetary comparison schedule on page 19. This is principally due to lower than projected revenue that was offset by cost savings throughout most functions.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2020, the District had \$28,314,018 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$161,171 or 0.57 percent, above last year.

This year's major additions consisted of vehicles, and architect fees for an upcoming construction project.

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

Debt Administration

At year-end, the District had \$14,410,000 in bonds outstanding versus \$16,240,000 last year—a decrease of 11.3% from the prior year. No new debt was incurred during the year. The District's general obligation bond rating is AAA (as a result of guarantees of the Texas Permanent School Fund), according to national rating agencies.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The uncertainty of student population due to new housing construction and the COVID-19 pandemic creates difficulty in planning.
- Commercial and retail properties development lagging behind residential development causing a property value per pupil shift.
- COVID-19 expenditures including software to accommodate online instruction, additional teaching staff to improve the quality of instruction both remotely and in person as well as lessening the stress and burden on students, parents and staff members.

These factors were taken into account during the preparation of the 2020-21 General Fund 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 Ponder Independent School District, 400 W. Bailey, Ponder, Texas 76259, (940) 479-8200.

BASIC FINANCIAL STATEMENTS

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PONDER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 18,375,840
1220 Property Taxes - Delinquent	403,764
1230 Allowance for Uncollectible Taxes	(80,752)
1240 Due from Other Governments	852,160
1410 Prepayments	235,987
Capital Assets:	
1510 Land	2,168,802
1520 Buildings, Net	23,736,667
1530 Furniture and Equipment, Net	940,774
1580 Construction in Progress	1,467,775
1000 Total Assets	48,101,017
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	406,185
1705 Deferred Outflow Related to TRS Pension	1,467,850
1706 Deferred Outflow Related to TRS OPEB	754,702
1700 Total Deferred Outflows of Resources	2,628,737
LIABILITIES	
2110 Accounts Payable	62,273
2140 Interest Payable	18,116
2160 Accrued Wages Payable	608,301
2180 Due to Other Governments	515,266
2200 Accrued Expenses	54,841
2300 Unearned Revenue	702
Noncurrent Liabilities:	
2501 Due Within One Year	1,978,838
2502 Due in More Than One Year	13,325,799
2540 Net Pension Liability (District's Share)	2,927,232
2545 Net OPEB Liability (District's Share)	4,398,665
2000 Total Liabilities	23,890,033
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	745,840
2606 Deferred Inflow Related to TRS OPEB	1,903,024
2600 Total Deferred Inflows of Resources	2,648,864
NET POSITION	
3200 Net Investment in Capital Assets	13,660,446
3850 Restricted for Debt Service	5,926,667
3900 Unrestricted	4,603,744
3000 Total Net Position	\$ 24,190,857

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 9,530,675	\$ 3,600	\$ 1,030,176	\$ (8,496,899)
12 Instructional Resources and Media Services	202,485	-	11,246	(191,239)
13 Curriculum and Instructional Staff Development	190,589	-	15,463	(175,126)
23 School Leadership	994,641	-	71,586	(923,055)
31 Guidance, Counseling and Evaluation Services	324,944	-	24,002	(300,942)
33 Health Services	68,235	76,677	5,510	13,952
34 Student (Pupil) Transportation	587,017	-	81,312	(505,705)
35 Food Services	843,072	218,784	461,137	(163,151)
36 Extracurricular Activities	1,048,920	40,694	148,151	(860,075)
41 General Administration	877,463	-	51,084	(826,379)
51 Facilities Maintenance and Operations	2,433,973	3,206	62,947	(2,367,820)
52 Security and Monitoring Services	28,652	-	25,081	(3,571)
53 Data Processing Services	526,462	-	98,732	(427,730)
61 Community Services	591	-	-	(591)
72 Debt Service - Interest on Long-Term Debt	372,038	-	45,442	(326,596)
73 Debt Service - Bond Issuance Cost and Fees	60,098	-	-	(60,098)
93 Payments Related to Shared Services Arrangements	499,849	-	-	(499,849)
99 Other Intergovernmental Charges	66,858	-	-	(66,858)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 18,656,562	\$ 342,961	\$ 2,131,869	(16,181,732)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		7,534,005
DT	Property Taxes, Levied for Debt Service		3,856,477
SF	State Aid - Formula Grants		6,318,948
IE	Investment Earnings		349,824
MI	Miscellaneous Local and Intermediate Revenue		53,409
TR	Total General Revenues		<u>18,112,663</u>
CN	Change in Net Position		1,930,931
NB	Net Position - Beginning		<u>22,259,926</u>
NE	Net Position - Ending		<u>\$ 24,190,857</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 12,524,901	\$ 5,925,893	\$ (74,954)	\$ 18,375,840
1220 Property Taxes - Delinquent	302,642	101,122	-	403,764
1230 Allowance for Uncollectible Taxes	(60,528)	(20,224)	-	(80,752)
1240 Due from Other Governments	642,807	774	208,579	852,160
1410 Prepayments	235,987	-	-	235,987
1000 Total Assets	<u>\$ 13,645,809</u>	<u>\$ 6,007,565</u>	<u>\$ 133,625</u>	<u>\$ 19,786,999</u>
LIABILITIES				
2110 Accounts Payable	\$ 52,108	\$ -	\$ 10,165	\$ 62,273
2160 Accrued Wages Payable	570,999	-	37,302	608,301
2180 Due to Other Governments	515,266	-	-	515,266
2200 Accrued Expenditures	51,369	-	3,472	54,841
2300 Unearned Revenue	-	-	702	702
2000 Total Liabilities	<u>1,189,742</u>	<u>-</u>	<u>51,641</u>	<u>1,241,383</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	242,114	80,898	-	323,012
2600 Total Deferred Inflows of Resources	<u>242,114</u>	<u>80,898</u>	<u>-</u>	<u>323,012</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3430 Prepaid Items	235,987	-	-	235,987
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	5,926,667	-	5,926,667
Committed Fund Balance:				
3540 Extended Day School	-	-	26,317	26,317
3545 Campus Activities	-	-	55,667	55,667
3600 Unassigned Fund Balance	11,977,966	-	-	11,977,966
3000 Total Fund Balances	<u>12,213,953</u>	<u>5,926,667</u>	<u>81,984</u>	<u>18,222,604</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 13,645,809</u>	<u>\$ 6,007,565</u>	<u>\$ 133,625</u>	<u>\$ 19,786,999</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	18,222,604
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund financial statements.		49,145,708
2 Accumulated depreciation has not been included in the fund financial statements.		(20,831,690)
3 Bonds payable have not been included in the fund financial statements.		(14,410,000)
4 Bond premiums and discounts are not recognized in the fund financial statements.		(649,757)
5 Compensated absences have not been included in the fund financial statements.		(244,880)
6 Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.		(18,116)
7 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$2,927,232, a Deferred Resource Inflow related to TRS in the amount of \$745,840, and a Deferred Resource Outflow related to TRS in the amount of \$1,467,850. This amounted to a decrease in Net Position in the amount of \$2,205,222.		(2,205,222)
8 Included in the items related to debt is the recognition of the District's proportionate share of the net Other Post-Employment Benefit (OPEB) liability required by GASB 75 in the amount of \$4,398,665, a Deferred Resource Inflow related to TRS OPEB in the amount of \$1,903,024, and a Deferred Resource Outflow related to TRS OPEB in the amount of \$754,702. This amounted to a net decrease in Net Position in the amount of \$5,546,987.		(5,546,987)
9 Property tax revenue reported as unavailable revenue in the fund financial statements was recognized in the government-wide financial statements.		323,012
10 Deferred charge on bond refundings has not been recorded in the fund financial statements.		406,185
19 Net Position of Governmental Activities	\$	<u><u>24,190,857</u></u>

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

PONDER 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	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 7,840,649	\$ 3,927,063	\$ 384,819	\$ 12,152,531
5800 State Program Revenues	7,137,295	45,442	346,018	7,528,755
5900 Federal Program Revenues	76,677	-	612,658	689,335
5020 Total Revenues	<u>15,054,621</u>	<u>3,972,505</u>	<u>1,343,495</u>	<u>20,370,621</u>
EXPENDITURES:				
Current:				
0011 Instruction	7,956,250	-	468,187	8,424,437
0012 Instructional Resources and Media Services	168,559	-	-	168,559
0013 Curriculum and Instructional Staff Development	180,925	-	-	180,925
0023 School Leadership	934,192	-	-	934,192
0031 Guidance, Counseling, and Evaluation Services	297,042	-	-	297,042
0033 Health Services	59,555	-	-	59,555
0034 Student (Pupil) Transportation	592,281	-	-	592,281
0035 Food Services	-	-	755,589	755,589
0036 Extracurricular Activities	564,346	-	131,032	695,378
0041 General Administration	828,485	-	-	828,485
0051 Facilities Maintenance and Operations	2,330,256	-	1,409	2,331,665
0052 Security and Monitoring Services	23,115	-	-	23,115
0053 Data Processing Services	402,453	-	89,871	492,324
Debt Service:				
0071 Principal on Long-Term Debt	-	1,830,000	-	1,830,000
0072 Interest on Long-Term Debt	-	469,500	-	469,500
0073 Bond Issuance Cost and Fees	-	1,500	-	1,500
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,472,082	-	-	1,472,082
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	499,849	-	-	499,849
0099 Other Intergovernmental Charges	66,858	-	-	66,858
6030 Total Expenditures	<u>16,376,248</u>	<u>2,301,000</u>	<u>1,446,088</u>	<u>20,123,336</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,321,627)</u>	<u>1,671,505</u>	<u>(102,593)</u>	<u>247,285</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	25,081	-	73,311	98,392
8911 Transfers Out (Use)	(73,311)	-	(25,081)	(98,392)
7080 Total Other Financing Sources (Uses)	<u>(48,230)</u>	<u>-</u>	<u>48,230</u>	<u>-</u>
1200 Net Change in Fund Balances	(1,369,857)	1,671,505	(54,363)	247,285
0100 Fund Balance - September 1 (Beginning)	13,583,810	4,255,162	136,347	17,975,319
3000 Fund Balance - August 31 (Ending)	<u>\$ 12,213,953</u>	<u>\$ 5,926,667</u>	<u>\$ 81,984</u>	<u>\$ 18,222,604</u>

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

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	247,285
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of reclassifying the current year capital asset additions is to increase net position.		1,573,789
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position in the government-wide financial statements.		(1,412,618)
Current year long-term debt principal payments on contractual obligations are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.		1,830,000
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.		3,624
Revenues from property taxes are considered unavailable in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectable amounts, in the government-wide financial statements.		73,503
Current year amortization of the premium/discount on bonds payable is not recorded in the fund financial statements, but is shown as a reduction in long-term debt in the government-wide financial statements.		93,838
Current year compensated absences accrual is not reflected in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.		(18,668)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2019 caused the change in the ending net position to increase in the amount of \$236,356. These contributions were replaced with the District's pension expense for the year of \$559,052, which caused a decrease in the change in net position. The impact of all of these is to decrease the change in net position by \$322,696.		(322,396)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS OPEB contributions made after the measurement date of 8/31/2019 but during the current fiscal year caused the ending net position to increase in the amount of \$71,508. These contributions were replaced with the District's OPEB expense for the year of \$150,356 which caused a decrease in net position. The impact of both of these is to decrease net position by \$78,828.		(78,828)
Current year amortization of deferred loss on bond refunding is not recorded in the fund financial statements, but is shown as a reduction of the deferred loss in the government-wide financial statements.		(58,598)
Change in Net Position of Governmental Activities	\$	1,930,931

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

PONDER 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		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 7,224,160	\$ 7,224,160	\$ 7,840,649	\$ 616,489
5800 State Program Revenues	8,815,039	8,815,039	7,137,295	(1,677,744)
5900 Federal Program Revenues	76,832	76,832	76,677	(155)
5020 Total Revenues	16,116,031	16,116,031	15,054,621	(1,061,410)
EXPENDITURES:				
Current:				
0011 Instruction	8,406,366	8,143,366	7,956,250	187,116
0012 Instructional Resources and Media Services	176,123	176,123	168,559	7,564
0013 Curriculum and Instructional Staff Development	189,281	189,281	180,925	8,356
0023 School Leadership	941,309	941,309	934,192	7,117
0031 Guidance, Counseling, and Evaluation Services	308,848	308,848	297,042	11,806
0033 Health Services	76,090	89,090	59,555	29,535
0034 Student (Pupil) Transportation	683,821	658,821	592,281	66,540
0036 Extracurricular Activities	693,296	618,296	564,346	53,950
0041 General Administration	824,164	849,164	828,485	20,679
0051 Facilities Maintenance and Operations	1,971,136	2,621,136	2,330,256	290,880
0052 Security and Monitoring Services	40,900	40,900	23,115	17,785
0053 Data Processing Services	201,495	451,495	402,453	49,042
Capital Outlay:				
0081 Facilities Acquisition and Construction	150,000	1,800,000	1,472,082	327,918
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	433,000	508,000	499,849	8,151
0095 Payments to Juvenile Justice Alternative Ed. Prg.	28,000	18,000	-	18,000
0099 Other Intergovernmental Charges	61,149	71,149	66,858	4,291
6030 Total Expenditures	15,184,978	17,484,978	16,376,248	1,108,730
1100 Excess (Deficiency) of Revenues Over (Under)	931,053	(1,368,947)	(1,321,627)	47,320
Expenditures				
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	25,081	25,081
8911 Transfers Out (Use)	(60,000)	(60,000)	(73,311)	(13,311)
7080 Total Other Financing Sources (Uses)	(60,000)	(60,000)	(48,230)	11,770
1200 Net Change in Fund Balances	871,053	(1,428,947)	(1,369,857)	59,090
0100 Fund Balance - September 1 (Beginning)	13,583,810	13,583,810	13,583,810	-
3000 Fund Balance - August 31 (Ending)	\$ 14,454,863	\$ 12,154,863	\$ 12,213,953	\$ 59,090

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

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

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 19,972	\$ 28,691
Total Assets	<u>19,972</u>	<u>\$ 28,691</u>
LIABILITIES		
Due to Student Groups	-	\$ 28,691
Total Liabilities	<u>-</u>	<u>\$ 28,691</u>
NET POSITION		
Unrestricted Net Position	<u>19,972</u>	
Total Net Position	<u>\$ 19,972</u>	

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

PONDER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ 35,195
Total Additions	<u>35,195</u>
DEDUCTIONS:	
Supplies and Materials	<u>29,750</u>
Total Deductions	<u>29,750</u>
Change in Fiduciary Net Position	5,445
Total Net Position - September 1 (Beginning)	<u>14,527</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 19,972</u></u>

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

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PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

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

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

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

B. BASIS OF PRESENTATION

The government-wide financial statements (the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ended August 31, 2020.

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

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

Fund Financial Statements:

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

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

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Private Purpose Trust Fund** – This fund is used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types. This fund is not budgeted.
3. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

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

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A 90 day availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The 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.

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

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

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

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

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

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

D. BUDGETARY CONTROL

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

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

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

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

August 31, 2020	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ -
Nonappropriated Budget Funds	<u>81,984</u>
All Special Revenue Funds	<u>\$81,984</u>

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent 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. The District had no material encumbrances outstanding at August 31, 2020.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

F. PREPAID ITEMS

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and prepaid items are shown as nonspendable fund balance to signify that they are not available for other subsequent expenditures. Prepaid balances are reported using the consumption method, in which the prepaid item is recorded as an asset when paid and is charged to expenditure or expense each fiscal year in an amount equal to the related benefits received that year.

G. INTERFUND RECEIVABLES AND PAYABLES

Short-term amounts owed between funds are classified as “Due to/from other funds”. Interfund loans are classified as “Advances to/from other funds” and are offset by a fund balance reserve account.

H. CAPITAL ASSETS

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

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

Buildings	28-39 Years
Furniture and Equipment	5-12 Years

I. COMPENSATED ABSENCES

Employees who retire in accordance with provisions established by the District shall receive the following retirement buy back from the District:

- A. Employees with ten or more years of continuous service in the District, shall receive pay for up to 50 days of any accrued, unused days of state and local leave at the currently adopted certified instructional substitute rate. If the employee is reemployed with the District, days for which the employee received payment shall not be available to that employee.
- B. Employees with fewer than ten years of continuous service in the District, shall receive pay for any accrued, unused days of local leave at the rate of \$15 per day.

The accrual for accumulated leave day benefits has been recorded in the governmental financial statements.

J. CASH EQUIVALENTS

Investments are considered to be cash equivalents if they are highly liquid with maturity three months or less.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

K. NET POSITION

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

L. LONG-TERM OBLIGATIONS

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

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

M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

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

Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, the deferred charge on bond refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities for the deferred charge on bond refundings at August 31, 2020 was \$406,185.

Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently approximately 6.7 years.

A deferred outflow for pension expense results from payments made to the TRS pension plan by the District after the plan's measurement date. The amount of deferred outflows reported in the governmental activities for deferred pension expenses at August 31, 2020 was \$1,467,850.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

Deferred outflows of resources for OPEB- Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan which is currently approximately 8.6 years. The amount of deferred outflows reported in the governmental activities for deferred OPEB expense at August 31, 2020 was \$754,702.

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

Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources in the fund financial statements. The amount of deferred inflows of resources reported in the governmental funds at August 31, 2020 was \$323,012.

Deferred inflows of resources for pension - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period. In fiscal year 2020, the District reported deferred inflows of resources for pensions in the governmental activities in the amount of \$745,840.

Deferred inflows of resources for OPEB - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remaining service life (AERSL) of all members (8.6 years for the 2019 measurement year). In fiscal year 2020, the District reported deferred inflows of resources for OPEB in the governmental activities in the amount of \$1,903,024.

N. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2020, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

O. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

P. FINANCIAL REPORTING MODEL

The District follows the financial reporting model for state and local governments that includes the addition of management’s discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve *fiscal accountability* and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government’s *operational accountability*. The GASB model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

As a result, the financial statements include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. The government-wide financial statements split the District programs between governmental and business-type activities.

Q. DATA CONTROL CODES

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (the “Agency”) in their Resource Guide. The Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

NOTE 2. FUND BALANCE

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

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

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.

- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Food service resources are being restricted because their use is restricted pursuant to the mandates of the National School Lunch and Breakfast Program.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Board of Trustees has assigned no fund balance at August 31, 2020.
- Unassigned: This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

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

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 15) and are described below:

General Fund

The General Fund has unassigned fund balance of \$11,977,966 at August 31, 2020. Prepayments (prepaid items) of \$235,987 are considered nonspendable fund balance.

Other Major Funds

The Debt Service Fund has restricted funds of \$5,926,667 at August 31, 2020 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt.

Other Funds

The fund balance of \$55,667 in the Campus Activity Fund and \$26,317 in Extended Day School (special revenue funds) is shown as committed.

NOTE 3. DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

1. Cash Deposits:

At August 31, 2020, the carrying amount of the District's deposits in checking accounts and interest-bearing savings accounts was \$15,994,050 and the bank balance was \$16,227,292. The District's cash deposits at August 31, 2020 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2020, the District's cash balances totaled \$16,227,292. This entire amount was either collateralized with securities or a letter of credit held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus, the District's deposits are not exposed to custodial credit risk at August 31, 2020.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At August 31, 2020, the District held investments in two public funds investment pools (Lone Star and Logic). Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk: This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for both Lone Star and Logic at year-end was from AAAF/SI to AAAM (Standard & Poor's).
- d. Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for both Lone Star and Logic is less than 60 days.
- e. Foreign Currency Risk: This is the risk that exchange rates will adversely affect the fair value of an investment. At August 31, 2020, the District was not exposed to foreign currency risk.

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

- f. Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

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

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

The District’s investments at August 31, 2020, are shown below:

Name	Carrying Amount	Market Value
Lone Star	\$2,405,420	\$2,405,420
Logic	26,034	26,034
Total	\$2,431,454	\$2,431,454

Fair Value Measurements

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

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

The District’s investment in Lone Star and Logic (statewide 2a7-like external investment pools) are not required to be measured at fair value but are measured at amortized cost.

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

NOTE 4. CAPITAL ASSETS

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

	<u>Balance</u> <u>September 1</u>	<u>Additions/</u> <u>Completions</u>	<u>Retirement/</u> <u>Adjustments</u>	<u>Balance</u> <u>August 31</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,168,802	\$ -	\$ -	\$ 2,168,802
Construction in Progress	-	1,467,775	-	1,467,775
Total capital assets, not being depreciated	<u>2,168,802</u>	<u>1,467,775</u>	<u>-</u>	<u>3,636,577</u>
Capital assets being depreciated:				
Buildings and Improvements	41,265,748	-	-	41,265,748
Furniture and Equipment	4,137,369	106,014	-	4,243,383
Totals assets being depreciated	<u>45,403,117</u>	<u>106,014</u>	<u>-</u>	<u>45,509,131</u>
Less accumulated depreciation for:				
Buildings and Improvements	(16,334,931)	(1,194,150)	-	(17,529,081)
Furniture and Equipment	(3,084,141)	(218,468)	-	(3,302,609)
Total accumulated depreciation	<u>(19,419,072)</u>	<u>(1,412,618)</u>	<u>-</u>	<u>(20,831,690)</u>
Total capital assets being depreciated, net	<u>25,984,045</u>	<u>(1,306,604)</u>	<u>-</u>	<u>24,677,441</u>
Governmental activities capital assets, net	<u>\$ 28,152,847</u>	<u>\$ 161,171</u>	<u>\$ -</u>	<u>\$28,314,018</u>

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

Governmental activities:	
Instruction	\$ 736,249
Instructional Resources & Media Services	26,898
School Leadership	15,709
Guidance, Counseling & Evaluation Services	12,901
Health Services	5,236
Student (Pupil) Transportation	96,355
Food Services	56,653
Cocurricular/Extracurricular Activities	341,256
General Administration	17,052
Plant Maintenance and Operations	69,580
Date Processing Services	34,138
Community Services	591
Total depreciation expense-Governmental activities	<u>\$1,412,618</u>

NOTE 5. LONG-TERM DEBT

Long-term debt consists of par bonds and compensated absences. All long-term debt represents transactions in the District's governmental activities.

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

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

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 9/1/19</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 8/31/20</u>	<u>Due Within One Year</u>
Bonded Indebtedness:						
2012 Refunding	2.00-4.00%	\$ 6,570,000	\$ -	\$ 730,000	\$ 5,840,000	\$ 750,000
2013 Refunding	1.50-2.50%	2,920,000	-	340,000	2,580,000	355,000
2017 Refunding	2.00-4.00%	6,750,000	-	760,000	5,990,000	780,000
Total Bonded Indebtedness		<u>16,240,000</u>	<u>-</u>	<u>1,830,000</u>	<u>14,410,000</u>	<u>1,885,000</u>
Other Liabilities						
Discount/Premium on Issuance of Debt		743,595	-	93,838	649,757	93,838
Compensated Absences		226,212	18,668	-	244,880	-
Total Long-Term Liabilities		<u>\$17,209,807</u>	<u>\$ 18,668</u>	<u>\$1,923,838</u>	<u>\$15,304,637</u>	<u>\$1,978,838</u>

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

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2020.

NOTE 6. DEBT SERVICE REQUIREMENTS - BONDS

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

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
August 31, 2021	\$ 1,885,000	\$ 414,400	\$ 2,299,400
2022	1,940,000	359,625	2,299,625
2023	1,995,000	302,950	2,297,950
2024	2,055,000	244,575	2,299,575
2025	2,115,000	183,400	2,298,400
2026-2027	4,420,000	181,388	4,601,388
	<u>\$14,410,000</u>	<u>\$1,686,338</u>	<u>\$16,096,338</u>

NOTE 7. DEFEASED BONDS OUTSTANDING

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

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. At August 31, 2020, \$15,305,000 of bonds outstanding are considered defeased.

PONDER INDEPENDENT SCHOOL DISTRICT
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NOTE 8. PROPERTY TAXES

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2019-20 fiscal year was based was \$770,232,256. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2020, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.97000 and \$0.49778 per \$100 valuation, respectively, for a total of \$1.46778 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2020 were 98.62% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2020, property taxes receivable, net of estimated uncollectible taxes, totaled \$242,114 and \$80,898 for the General and Debt Service Funds, respectively.

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

NOTE 9. DEFINED BENEFIT PENSION PLAN

Plan Description. Ponder 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://trs.texas.gov/trs%20Documents/cafr2019.pdf>, selecting *About TRS* then *Publications* then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

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

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.

In May, 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Ponder ISD FY2020 Employer Contributions		\$ 236,356
Ponder ISD FY2020 Member Contributions		\$ 709,002
Ponder ISD FY2020 NECE On-Behalf Contributions		\$ 446,451

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. The contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

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.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

Actuarial Assumptions. The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial 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 Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2019	2.63%
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Discount Rate. A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7.25%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

Asset Class	FY2019 Target Allocation ¹	New Target Allocation ²	Long-Term Expected Geometric Real Rate of Return ³
Global Equity			
U.S.	18%	18%	6.4%
Non-U.S. Developed	13%	13%	6.3%
Emerging Markets	9%	9%	7.3%
Directional Hedge Funds	4%	-	-
Private Equity	13%	14%	8.4%
Stable Value			
U.S. Treasuries	11%	16%	3.1%
Absolute Return	-	-	-
Stable Value Hedge Funds	4%	5%	4.5%
Real Return			
Global Inflation Linked Bonds ⁴	3%	-	-
Real Estate	14%	15%	8.5%
Energy, Natural Resources & Infrastructure	5%	6%	7.3%
Commodities	-	-	-
Risk Parity			
Risk Parity	5%	8%	5.8%/6.5% ⁵
Leverage			
Cash	1%	2%	2.5%
Asset Allocation Leverage	-	-6%	2.7%
Total	<u>100%</u>	<u>100%</u>	<u>7.23%</u>

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 Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Ponder ISD’s proportionate share of the net pension liability:	\$44,995,805	\$2,927,232	\$16,533,258

¹ Target allocations are based on the Strategic Asset Allocation as of FY2019

² New allocations are based on the Strategic Asset Allocation to be implemented FY2020

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

⁴ New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds

⁵ 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2020, Ponder Independent School District reported a liability of \$2,927,232 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Ponder Independent School District. The amount recognized by Ponder 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 Ponder Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$2,927,232
State's proportionate share that is associated with the District	<u>6,630,885</u>
Total	<u>\$9,558,117</u>

The net pension liability was measured as of August 31, 2018 and rolled forward to 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 proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective net pension liability was 0.0056311204%, a decrease of 2.83% from its proportionate share of 0.0057952408% at August 31, 2018.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent 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. 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 in the actuarial assumptions.
- The Texas Legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

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, Ponder Independent School District recognized pension expense of \$1,041,619 and revenue of \$1,041,619 for support provided by the State.

At August 31, 2020, Ponder 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 economic experience	\$ 12,297	\$ 101,638
Changes in actuarial assumptions	908,171	375,299
Difference between projected and actual investment earnings	175,986	146,593
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	135,040	122,310
Contributions paid to TRS subsequent to the measurement date	236,356	-
Total	\$1,467,850	\$ 745,840

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\$236,356 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2021	\$ 127,217
2022	93,050
2023	126,713
2024	131,514
2025	37,657
Thereafter	(30,497)

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS- Care). It is a multiple-employer, cost-sharing defined 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.

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.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

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

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

* or surviving spouse

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

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

	<u>Contribution Rates</u>	
	<u>2019</u>	<u>2020</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Ponder ISD FY20 Employer Contributions		\$71,508
Ponder ISD FY20 Member Contributions		\$59,850
Ponder ISD FY20 NECE On-behalf Contributions		\$87,711

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

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.

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

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

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%
Aging Factors	Based on specific plan experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Projected Salary Increases	3.05% to 9.05%, including inflation
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65
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. 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.

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.

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	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:	\$5,310,600	\$4,398,665	\$3,685,257

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 OPEB liability would be if it were calculated using a trend rate that is one-percentage lower or one-percentage point higher than the assumed healthcare cost trend rate of 8.5%.

	1% Decrease (7.5%)	Current Healthcare Cost Trend Rate (8.5%)	1% Increase (9.5%)
District's proportionate share of the Net OPEB Liability:	\$3,588,277	\$4,398,665	\$5,484,214

OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2020, the District reported a liability of \$4,398,665 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District.

The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective Net OPEB Liability	\$ 4,398,665
State's proportionate share that is associated with the District	<u>5,844,844</u>
Total	<u>\$10,243,509</u>

The Net OPEB Liability was measured as of August 31, 2018 and rolled forward to 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 0.0093012319%, an increase of 0.29% compared to the August 31, 2018 proportionate share of 0.0092739501%.

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

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care 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 the 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.

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

- 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 activity employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$154,046 and revenue of \$154,046 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 215,792	\$ 719,795
Changes in actuarial assumptions	244,312	1,183,133
Difference between projected and actual investment earnings	571	96
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	222,519	-
Contributions paid to TRS subsequent to the measurement date	71,508	-
Total	\$ 754,702	\$1,903,024

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

Year ended August 31:	OPEB Expense Amount
2021	\$ (211,348)
2022	(211,348)
2023	(211,502)
2024	(211,590)
2025	(211,568)
Thereafter	(162,474)

NOTE 11. 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 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 Patient Protection and Affordable Care Act provides subsidies from the Federal government for early retirees, as defined, covered by TRS-Care. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended August 31, 2020, the contribution made on behalf of the District was \$38,888.

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

NOTE 12. HEALTH CARE

During the year ended August 31, 2020, employees of Ponder Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$225 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. The Plan was authorized by Section 21.922. Texas Education Code and was documented by contractual agreement.

NOTE 13. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2020, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$302,642	\$642,807	\$ -	\$ 945,449
Debt Service Fund	101,122	774	-	101,896
Special Revenue Fund	<u>-</u>	<u>208,579</u>	<u>-</u>	<u>208,579</u>
Total - Governmental Activities	<u>\$403,764</u>	<u>\$852,160</u>	<u>\$ -</u>	<u>\$1,255,924</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 80,752</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,752</u>

Payables at August 31, 2020, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$ 52,108	\$570,999	\$515,266	\$51,369	\$1,189,742
Special Revenue Funds	<u>10,165</u>	<u>37,302</u>	<u>-</u>	<u>3,472</u>	<u>50,939</u>
Total - Governmental Activities	<u>\$ 62,273</u>	<u>\$608,301</u>	<u>\$515,266</u>	<u>\$54,841</u>	<u>\$1,240,681</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 14. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2020, are summarized below. All federal grants shown below are passed through the TEA and are reported on the financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Grant</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$642,807	\$ -	\$642,807
Debt Service	774	-	774
Special Revenue	<u>123,263</u>	<u>85,316</u>	<u>208,579</u>
Total	<u>\$766,844</u>	<u>\$85,316</u>	<u>\$852,160</u>

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

NOTE 15. LITIGATION AND CONTINGENCIES

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

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

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

NOTE 16. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Property taxes	\$7,434,301	\$ -	\$3,808,133	\$11,242,434
Food sales	-	218,784	-	218,784
Investment income	251,720	2,742	98,104	352,566
Penalties, interest and other tax related income	53,719	-	20,826	74,545
Co-curricular student activities	40,694	127,638	-	168,332
Tuition and fees	3,600	33,655	-	37,255
Insurance proceeds	3,206	-	-	3,206
Gifts and bequests	10,957	2,000	-	12,957
Other	<u>42,452</u>	<u>-</u>	<u>-</u>	<u>42,452</u>
Total	<u>\$7,840,649</u>	<u>\$384,819</u>	<u>\$3,927,063</u>	<u>\$12,152,531</u>

NOTE 17. SELF-INSURED WORKERS' COMPENSATION

The District participates in the Texas Educational Insurance Association Workers Compensation Self-Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$45,214 for the 19-20 fiscal year. Additionally, the District incurred fixed costs of \$11,094 for their share of claims administration, loss control, record keeping, and cost of excess insurance.

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

PONDER INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2020

The accrued liability for workers compensation self-insurance of \$36,386 includes unpaid claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in workers compensation claims liability amounts in fiscal periods 2019 and 2020 are represented below:

Fiscal Period	Beginning Claims Liability	Claim and Changes in Estimates	Claims Payments	Ending Claims Liability
2019	\$56,141	\$31,325	\$38,064	\$49,402
2020	49,402	9,299	22,315	36,386

NOTE 18. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for juvenile justice alternative education services with ten other school districts. Although the District contributes to the shared services arrangement based on its participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Ponder ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended August 31, 2020, the District had no students in the program and made no payment to the joint venture.

The District participates in a shared services arrangement for Special Education with five other school districts. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Sanger ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Ponder ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended August 31, 2020, the District contributed \$499,849 to the fiscal agent as its share of the costs of the joint venture.

NOTE 19. SUBSEQUENT EVENTS

Management evaluates subsequent events through the date of the report, which is the date the financial statements were available to be issued.

NOTE 20. GENERAL FUND FEDERAL SOURCE REVENUES

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
SHARS	-	<u>\$76,677</u>	<u>\$76,677</u>
Total for General Fund		<u>\$76,677</u>	<u>\$76,677</u>

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2020

NOTE 21. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION

The Texas Education Agency required the budgets for the Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in no functional categories for the year ended August 31, 2020.

NOTE 22. RISKS AND UNCERTAINTIES

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 the State of 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 the State in response to the Pandemic, which disaster declaration he has subsequently extended. 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 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 issued a series of executive orders relating to COVID-19 preparedness and mitigation. Under Executive Order GA-26, public schools, which ceased in-person instruction from the middle of March to the end of May and transitioned totally to remote instruction, resumed operations in the summer under protocols outlined in guidance from the TEA.

TEA has informed Texas school districts that COVID-19 related school closings and/or absenteeism will not impact ADA calculations and school funding so long as a school district commits to support students instructionally while they are at home. The District has developed remote instructional resources for its students and has begun delivering remote instruction in conjunction with in-person instruction. Therefore, the District does not anticipate a reduction in State funding as a result of the school closures at this time.

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.

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. These negative impacts may reduce or negatively affect property values within the District. The District’s bonded debt is 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.

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REQUIRED SUPPLEMENTARY INFORMATION

PONDER 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)	0.00563112%	0.00579524%	0.005814061%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,927,232	\$ 3,189,841	\$ 1,859,024
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	6,630,885	7,132,123	4,271,338
Total	<u>\$ 9,558,117</u>	<u>\$ 10,321,964</u>	<u>\$ 6,130,362</u>
District's Covered Payroll	\$ 9,207,818	\$ 8,486,322	\$ 8,258,831
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	31.79%	37.59%	22.51%
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.

<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.005981708%	0.0064515%	0.0046169%
\$ 2,260,398	\$ 2,280,519	\$ 1,233,239
5,226,230	5,095,400	4,486,410
<u>\$ 7,486,628</u>	<u>\$ 7,375,919</u>	<u>\$ 5,719,649</u>
\$ 8,105,147	\$ 8,049,426	\$ 7,869,343
27.89%	28.33%	15.67%
78.00%	78.43%	83.25%

PONDER 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	\$ 236,356	\$ 197,095	\$ 195,101
Contribution in Relation to the Contractually Required Contribution	(236,356)	(197,095)	(195,101)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 9,207,818	\$ 8,486,322	\$ 8,258,831
Contributions as a Percentage of Covered Payroll	2.57%	2.32%	2.36%

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
\$ 190,551	\$ 181,917	\$ 191,096
(190,551)	(181,917)	(191,096)
\$ -	\$ -	\$ -
\$ 8,105,147	\$ 8,049,426	\$ 7,869,343
2.35%	2.26%	2.43%

PONDER 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	0.009301231%	0.00927395%	0.008841681%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 4,398,665	\$ 4,630,568	\$ 3,844,916
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	5,844,844	7,343,910	6,626,853
Total	<u>\$ 10,243,509</u>	<u>\$ 11,974,478</u>	<u>\$ 10,471,769</u>
District's Covered Payroll	\$ 9,207,818	\$ 8,486,322	\$ 8,258,831
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	47.77%	54.57%	46.55%
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.

PONDER 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	\$ 71,508	\$ 65,948	\$ 63,779
Contribution in Relation to the Contractually Required Contribution	(71,508)	(65,948)	(63,779)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 9,207,818	\$ 8,486,322	\$ 8,258,831
Contributions as a Percentage of Covered Payroll	0.78%	0.78%	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.

PONDER INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2020

PENSION LIABILITY:

Changes of benefit terms:

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

Changes of assumptions:

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent 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. 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 in the actuarial assumptions.
- The Texas Legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

OPEB LIABILITY:

Changes of benefit terms:

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

Changes of assumptions:

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

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care 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 the 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.

COMBINING SCHEDULES

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

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 ESSER -School Emergency Relief
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ 20,359	\$ -	\$ (63,743)
1240 Due from Other Governments	15,891	5,582	-	63,743
1000 Total Assets	<u>\$ 15,891</u>	<u>\$ 25,941</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES				
2110 Accounts Payable	\$ -	\$ 1,058	\$ -	\$ -
2160 Accrued Wages Payable	14,327	22,975	-	-
2200 Accrued Expenditures	1,564	1,908	-	-
2300 Unearned Revenue	-	-	-	-
2000 Total Liabilities	<u>15,891</u>	<u>25,941</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Committed Fund Balance:				
3540 Extended Day School	-	-	-	-
3545 Campus Activities	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 15,891</u>	<u>\$ 25,941</u>	<u>\$ -</u>	<u>\$ -</u>

276 Instructional Continuity	288 Summer School LEP	289 ESEA Title I Part A	397 Advanced Placement Incentives	410 State Instructional Materials	428 School Safety & Security Grant	429 Math Stipends	461 Campus Activity Funds
\$ -	\$ 683	\$ -	\$ 19	\$ (123,363)	\$ -	\$ -	\$ 64,774
-	-	-	-	123,363	-	-	-
<u>\$ -</u>	<u>\$ 683</u>	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,774</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,107
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	683	-	19	-	-	-	-
<u>-</u>	<u>683</u>	<u>-</u>	<u>19</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,107</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	55,667
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,667</u>
<u>\$ -</u>	<u>\$ 683</u>	<u>\$ -</u>	<u>\$ 19</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,774</u>

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

Data Control Codes	496 Extended Day School	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 26,317	\$ (74,954)
1240 Due from Other Governments	-	208,579
1000 Total Assets	<u>\$ 26,317</u>	<u>\$ 133,625</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ 10,165
2160 Accrued Wages Payable	-	37,302
2200 Accrued Expenditures	-	3,472
2300 Unearned Revenue	-	702
2000 Total Liabilities	<u>-</u>	<u>51,641</u>
FUND BALANCES		
Committed Fund Balance:		
3540 Extended Day School	26,317	26,317
3545 Campus Activities	-	55,667
3000 Total Fund Balances	<u>26,317</u>	<u>81,984</u>
4000 Total Liabilities and Fund Balances	<u>\$ 26,317</u>	<u>\$ 133,625</u>

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PONDER 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 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 ESSER -School Emergency Relief
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 222,671	\$ -	\$ -
5800 State Program Revenues	-	28,788	-	-
5900 Federal Program Revenues	105,437	379,134	26,569	79,679
5020 Total Revenues	105,437	630,593	26,569	79,679
EXPENDITURES:				
Current:				
0011 Instruction	105,437	-	26,569	-
0035 Food Services	-	755,589	-	-
0036 Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	79,679
6030 Total Expenditures	105,437	755,589	26,569	79,679
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(124,996)	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	73,311	-	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	73,311	-	-
1200 Net Change in Fund Balance	-	(51,685)	-	-
0100 Fund Balance - September 1 (Beginning)	-	51,685	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

276 Instructional Continuity	288 Summer School LEP	289 ESEA Title I Part A	397 Advanced Placement Incentives	410 State Instructional Materials	428 School Safety & Security Grant	429 Math Stipends	461 Campus Activity Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	128,493
-	-	-	-	287,105	25,081	2,800	-
10,500	1,336	10,003	-	-	-	-	-
10,500	1,336	10,003	-	287,105	25,081	2,800	128,493
308	1,336	10,003	-	287,105	-	2,800	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	131,032
-	-	-	-	-	-	-	-
10,192	-	-	-	-	-	-	-
10,500	1,336	10,003	-	287,105	-	2,800	131,032
-	-	-	-	-	25,081	-	(2,539)
-	-	-	-	-	-	-	-
-	-	-	-	-	(25,081)	-	-
-	-	-	-	-	(25,081)	-	-
-	-	-	-	-	-	-	(2,539)
-	-	-	-	-	-	-	58,206
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	55,667

PONDER 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	496 Extended Day School	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 33,655	\$ 384,819
5800 State Program Revenues	2,244	346,018
5900 Federal Program Revenues	-	612,658
5020 Total Revenues	<u>35,899</u>	<u>1,343,495</u>
EXPENDITURES:		
Current:		
0011 Instruction	34,629	468,187
0035 Food Services	-	755,589
0036 Extracurricular Activities	-	131,032
0051 Facilities Maintenance and Operations	1,409	1,409
0053 Data Processing Services	-	89,871
6030 Total Expenditures	<u>36,038</u>	<u>1,446,088</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(139)</u>	<u>(102,593)</u>
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	73,311
8911 Transfers Out (Use)	-	(25,081)
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>48,230</u>
1200 Net Change in Fund Balance	(139)	(54,363)
0100 Fund Balance - September 1 (Beginning)	<u>26,456</u>	<u>136,347</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 26,317</u>	<u>\$ 81,984</u>

REQUIRED T.E.A. SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2011 and prior years	Various	Various	\$ Various
2012	1.040000	0.304610	870,142,644
2013	1.040000	0.313292	801,996,022
2014	1.040000	0.345000	735,150,630
2015	1.040000	0.340800	722,731,714
2016	1.040000	0.347500	706,877,799
2017	1.040000	0.427840	615,273,122
2018	1.040000	0.427790	639,197,092
2019	1.040000	0.427790	725,805,531
2020 (School year under audit)	0.970000	0.497780	770,232,256
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
\$ 154,998	\$ -	\$ 579	\$ 134	\$ (843)	\$ 153,442
5,704	-	133	38	-	5,533
5,413	-	164	49	-	5,200
8,209	-	250	83	-	7,876
7,617	-	500	164	193	7,146
11,769	-	564	188	193	11,210
14,236	-	950	391	338	13,233
22,947	-	3,786	1,557	(790)	16,814
80,993	-	59,076	24,300	29,906	27,523
-	11,305,315	7,368,299	3,781,229	-	155,787
<u>\$ 311,886</u>	<u>\$ 11,305,315</u>	<u>\$ 7,434,301</u>	<u>\$ 3,808,133</u>	<u>\$ 28,997</u>	<u>\$ 403,764</u>

PONDER 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		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 307,110	\$ 307,110	\$ 222,671	\$ (84,439)
5800 State Program Revenues	28,085	28,085	28,788	703
5900 Federal Program Revenues	467,181	410,000	379,134	(30,866)
5020 Total Revenues	802,376	745,195	630,593	(114,602)
EXPENDITURES:				
Current:				
0035 Food Services	802,376	802,376	755,589	46,787
6030 Total Expenditures	802,376	802,376	755,589	46,787
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(57,181)	(124,996)	(67,815)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	60,000	73,311	13,311
1200 Net Change in Fund Balances	-	2,819	(51,685)	(54,504)
0100 Fund Balance - September 1 (Beginning)	51,685	51,685	51,685	-
3000 Fund Balance - August 31 (Ending)	\$ 51,685	\$ 54,504	\$ -	\$ (54,504)

PONDER 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		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,550,940	\$ 3,550,940	\$ 3,927,063	\$ 376,123
5800 State Program Revenues	1,000	1,000	45,442	44,442
5020 Total Revenues	3,551,940	3,551,940	3,972,505	420,565
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	1,830,000	1,830,000	1,830,000	-
0072 Interest on Long-Term Debt	472,000	472,000	469,500	2,500
0073 Bond Issuance Cost and Fees	1,250,000	1,250,000	1,500	1,248,500
6030 Total Expenditures	3,552,000	3,552,000	2,301,000	1,251,000
1200 Net Change in Fund Balances	(60)	(60)	1,671,505	1,671,565
0100 Fund Balance - September 1 (Beginning)	4,255,162	4,255,162	4,255,162	-
3000 Fund Balance - August 31 (Ending)	\$ 4,255,102	\$ 4,255,102	\$ 5,926,667	\$ 1,671,565

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COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ponder Independent School District, as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise Ponder Independent School District's basic financial statements, and have issued our report dated November 18, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Hankins, Eastup, Deaton, Tonn & Seay, PC
Denton, Texas

November 18, 2020

Financial Advisory Services
Provided By:

