

OFFICIAL NOTICE OF SALE, BID FORM  
and  
PRELIMINARY OFFICIAL STATEMENT

**\$30,560,000\***

**LOVEJOY INDEPENDENT SCHOOL DISTRICT**  
*(Collin County, Texas)*

**Unlimited Tax School Building and Refunding Bonds  
Series 2021**

*Bids Due  
October 6, 2021  
at 10:00 a.m., Central Time*

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\*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

## OFFICIAL NOTICE OF SALE

**\$30,560,000\***

### LOVEJOY INDEPENDENT SCHOOL DISTRICT

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

### UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2021

#### THE SALE

**BONDS OFFERED FOR SALE AT COMPETITIVE BID:** The Board of Trustees (the "Board") of the Lovejoy Independent School District (the "District" or the "Issuer") is offering for sale at competitive bid its \$30,560,000\* Unlimited Tax School Building and Refunding Bonds, Series 2021 (the "Bonds"). The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Capital Appreciation Bonds ("CABs"). (The "CIBs" and collectively with the CABs, are referred to herein as the "Bonds"). The Bonds are being sold on an all or none basis. The Bonds will be awarded to the bid producing the lowest true interest cost on the CIBs only, subject to the successful negotiation of the yields on the CABs and the interest rate and yield on any additional CIB maturity that may be added to the issue, as described under "CONDITIONS OF THE SALE". The yield on the CABs and any additional CIB maturities will be negotiated with the best conforming bidder (lowest true interest cost) on the CIBs by the District through its Financial Advisor, SAMCO Capital Markets. Bidders may submit bids for the Bonds by either of the following methods:

- (1) Submit bids electronically as described below in "BIDS BY INTERNET;" or
- (2) Submit bids by facsimile as described below in "BIDS BY FACSIMILE."

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 10:00 a.m. Central time, on October 6, 2021. Bidders submitting a bid by internet **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 9:00 A.M., Central time, on October 6, 2021 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by facsimile, as described below. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, the Official Bid Form, and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact i-Deal LLC at 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018, Telephone 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the Issuer. The Issuer shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being the sole risk of the prospective bidder.

**BIDS BY FACSIMILE:** Interested bidders may, at their option and risk, submit their bid by facsimile to the District's Financial Advisor, SAMCO Capital Markets, Inc., Attention: Mr. Doug Whitt at (214) 279-8683 by 10:00 A.M., Central time, on October 6, 2021. Bidders submitting a bid by facsimile **shall not** be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit a bid by facsimile should, as a courtesy, submit an email message to [dwhitt@samcocapital.com](mailto:dwhitt@samcocapital.com) by 9:00 A.M., Central time, on October 6, 2021 indicating their intent to submit a bid by facsimile.

Neither the District nor SAMCO Capital Markets, Inc. is responsible for any failure of either of the Financial Advisor's or the bidder's fax machine. Bids received by facsimile after the bid deadline will not be accepted. Bidders who fax bids do so at their own risk. All such bids are binding on the bidder.

**PLACE AND TIME OF BID OPENING:** The bids for the Bonds will be opened at the District's offices at 10:00 A.M. Central time, on October 6, 2021.

**AWARD OF THE BONDS:** In the orders authorizing the Bonds that were adopted on January 25, 2021 and August 23, 2021 (together, the "Bond Order"), the Board has delegated authority to certain District officials (each, a "Designated Financial Officer") the authority to execute a pricing certificate (the "Pricing Certificate") to establish the final terms and effectuate the sale of the Bonds, which terms will be evidenced in the Pricing Certificate (the Bond Order and the Pricing Certificate are collectively referred to herein as the "Order"). Upon the opening of the bids as described above, the Designated Financial Officer shall award the Bonds by executing the Official Bid Form and the Pricing Certificate. The District, acting through the Designated Financial Officer, reserves the right to reject any and all bids and to waive any irregularities except time of submission.

#### THE BONDS

**DESCRIPTION:** The Bonds will be dated November 15, 2021 (the "Dated Date"). Interest on the CIBs will accrue from the date of Initial Delivery (defined herein) and will be due on February 15, 2022, and each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the CABs will accrete from the date they are initially delivered to the Initial Purchaser, compound semiannually on each February 15 and August 15, commencing February 15, 2022, and will be payable only upon stated maturity. The Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities

Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by BOKF, NA, Dallas, Texas as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Bonds are being sold on an all or none basis.

**MATURITY SCHEDULE:** The CABs will mature as follows:

| Maturity  | Principal Amount* | Maturity Amount* |
|-----------|-------------------|------------------|
| 2/15/2022 | \$625,000         | \$4,125,000      |

The CIBs will mature in the years and amounts as shown below.

| Maturity  | Principal Amount* | Interest Rate (%)** | Maturity  | Principal Amount* | Interest Rate (%)** |
|-----------|-------------------|---------------------|-----------|-------------------|---------------------|
| 2/15/2022 | \$1,645,000       | 5.00                | 2/15/2031 | \$ 235,000        |                     |
| 2/15/2023 | 5,015,000         | 5.00                | 2/15/2032 | 850,000           |                     |
| 2/15/2024 | 2,790,000         | 5.00                | 2/15/2033 | 475,000           |                     |
| 2/15/2025 | 775,000           |                     | 2/15/2034 | 490,000           |                     |
| 2/15/2026 | 795,000           |                     | 2/15/2035 | 495,000           |                     |
| 2/15/2027 | 825,000           |                     | 2/15/2036 | 2,495,000         |                     |
| 2/15/2028 | 855,000           |                     | 2/15/2037 | 2,575,000         |                     |
| 2/15/2029 | 220,000           |                     | 2/15/2038 | 2,650,000         |                     |
| 2/15/2030 | 230,000           |                     | 2/15/2039 | 6,520,000         |                     |

\*\*See “CONDITIONS OF THE SALE – TYPES OF BIDS AND INTEREST RATES” herein.

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS:** After selecting the winning bid, the aggregate principal amount of the Bonds and the principal amortization schedule may be adjusted as determined by the District and its Financial Advisor in \$5,000 increments to reflect the actual interest rates and to create a substantially level debt service schedule for the District. Such adjustments will not change the aggregate principal amount of the Bonds by more than 10% from the amount set forth herein or change the principal amount due on the Bonds in any year by more than 20% (excluding the 2022 CAB maturity and CIB maturities 2022 through 2031). The dollar amount bid for the Bonds by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Bonds finally determined to be issued. The District will use its best efforts to communicate to the winning bidder any such adjustment within four (4) hours after the opening of the bids. Purchaser’s compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Bonds as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. Any such adjustment of the aggregate principal amount of the Bonds and/or the maturity schedule for the Bonds made by the District or its Financial Advisor shall be subsequent to the award of the Bonds to the winning bidder as determined pursuant to “CONDITIONS OF THE SALE – BASIS OF AWARD” herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

**SERIAL BONDS AND/OR TERM BONDS:** Bidders may provide that all of the CIBs be issued as serial maturities or may provide that maturities 2032 through 2039 be combined into term bonds (the “Term Bonds”).

**MANDATORY SINKING FUND REDEMPTION:** If the successful bidder designates principal amounts of the CIBs to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption “MATURITY SCHEDULE” (subject to adjustment, as provided in “ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS”). Term Bonds to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Term Bonds then subject to redemption. The District, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the District and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

**OPTIONAL REDEMPTION:** The CIBs maturing on or after February 15, 2032 are subject to redemption at the option of the District in whole or in part on August 15, 2031 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The CABs are not subject to redemption prior to maturity.

**AUTHORITY FOR ISSUANCE AND SECURITY FOR PAYMENT:** The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), an election held in the District on May 10, 2014 and the bond orders adopted by the Board of Trustees on January 25, 2021 and August 23, 2021. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials to execute approval a pricing certificate establishing the pricing terms for the Bonds (the pricing certificate, together with the Bond Order, are collectively referred to herein as the “Order”). The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes to be levied annually on all taxable property within the District, without legal limitation as to rate or amount. (See “THE BONDS – Security” in the Preliminary Official Statement.)

\*Preliminary, subject to change. See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” herein.

shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Bonds.

In the Order the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, such Paying Agent/Registrar, promptly upon the appointment of a successor, is required to deliver the Security Register to the successor Paying Agent/Registrar.

In the event there is a change in the Paying Agent/Registrar, the District has agreed to notify each registered owner of the Bonds by United States mail, first-class postage prepaid, at the address in the Security Register, stating the effective date of the change and the mailing address of the successor Paying Agent/Registrar.

**BOOK-ENTRY-ONLY SYSTEM:** The District intends to utilize the Book-Entry-Only System of DTC with respect to the issuance of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.

**OFFICIAL STATEMENT AND OTHER TERMS AND COVENANTS IN THE ORDER:** Further details regarding the Bonds and certain covenants of the District contained in the Order are set forth in the Preliminary Official Statement, to which reference is made for all purposes.

## CONDITIONS OF THE SALE

**TYPES OF BIDS AND INTEREST RATES:** The Bonds will be sold in one block, on an "All or None" basis, and at a price of not less than their par value, and no accrued interest. **No bid producing a cash premium on the CIBs that results in a dollar price of less than \$106.00 nor greater than \$115.00 will be considered; provided, however, that any bid is subject to adjustment as described under the caption "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS."** Bidders are invited to name the rate(s) of interest to be borne by the Bonds, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest rate for the Bonds (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3.00% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used. The CIBs maturity February 15, 2022 through February 15, 2024 must bear a rate of 5.00%, and no other rates will be considered. The CIBs maturity February 15, 2025 through February 15, 2039 will bear rate(s) of interest determined by the bidder as specified above.** All Bonds of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

**NO BID REQUESTED FOR THE CABS:** No bid for the CABS is being requested. The Bonds, including the CABS, are being sold on an all or none basis and the Initial Purchaser agrees to purchase the CABS at yields to be mutually agreed upon by the District and the Initial Purchaser. The approximate maturity amount is shown on the Official Bid Form. **If no agreement can be reached between the District and the Initial Purchaser on the yields for the CABS, the District may reject the Initial Purchaser's bid and accept the next lowest true interest cost bid and negotiate with that bidder the yields on the CABS.**

**BASIS OF AWARD:** The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein and which produces the **lowest True Interest Cost (defined herein) rate on the CIBs only to the District.** The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the **Delivery Date** of all debt service payments on the Bonds on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Bonds plus the premium bid. **The CABS will be excluded from the true interest rate calculation.** In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the District with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the District with a breakdown of its "underwriting spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

**ESTABLISHING THE ISSUE PRICE FOR THE BONDS:** In order to provide the Issuer with information that enables it to comply with certain requirements of the Internal Revenue Code of 1986, as amended relating to the exclusion of interest on the Bonds from the gross income of their owners, the winning bidder will be required to complete, execute, and deliver to the Issuer or to the Issuer's municipal advisor, SAMCO Capital Markets, Inc. (the "Issuer's Municipal Advisor") (within 5 business days of the date on which the 10% Test, as defined below, is satisfied with respect to each of the maturities of the Bonds) the appropriate certification as to the Bonds' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale. In the event the winning bidder will not reoffer any maturity of the Bonds for sale to the Public (as defined herein) by the Closing Date, the Issue Price Certificate may be modified in a manner approved by the Issuer. Each bidder, by submitting its bid, agrees to complete, execute, and timely deliver the appropriate form of the Issue Price Certificate, if its bid is accepted by the Issuer. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the Issuer (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public),
- (iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another),

(ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "Sale Date" means the date that the Bonds are awarded by the Issuer to the winning bidder.

All actions to be taken by the Issuer under this Notice of Sale to establish the issue price of the Bonds may be taken on behalf of the Issuer by the Issuer's Municipal Advisor, and any notice or report to be provided to the Issuer may be provided to the Issuer's Municipal Advisor.

The Issuer will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Bonds, as specified in the bid and, if so stated, in the Official Bid Form.

The Issuer intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which requires, among other things, that the Issuer receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement"), generally. Moreover, the Issuer intends to rely on Treasury Regulations section 1.148-1(f)(2)(ii) (establishing the general rule requiring compliance with the 10% Test or hold-the-offering-price of each Hold-the-Price Bonds, as defined below) with respect to the CABs, as further describe in the next paragraph.

The sale of the Bonds will be awarded to the bidder making a bid that conforms to the specifications herein. In the event that the bidding process does not satisfy the Competitive Sale Requirement, bids will not be subject to cancellation and the winning bidder will be required to hold-the-offering-price of each maturity of the Bonds, other than any maturity 10% of which have been sold to the Public on the Sale Date at the initial offering prices or any higher prices ("Hold-the-Price Bonds"), as described in the next paragraph.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Bonds, that each Underwriter will neither offer nor sell any maturity of the Hold-the-Price Bonds to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the Sale Date; or
- (2) the date on which the Underwriters have sold at least 10% of that maturity of the Bonds to the Public at a price that is no higher than the initial offering price to the Public.

In the event that the bidding process does not satisfy the Competitive Sale Requirement, in order to assist the Issuer with documenting the establishment of the issue prices of the Bonds, the winning bidder agrees to promptly report to the Issuer the prices at which at least 10% of each maturity of the Bonds have been sold to the Public (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test). That reporting obligation shall continue until 10% of each maturity of the Bonds is sold to the Public. By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the Public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the Public to require each broker-dealer that is a party to such retail distribution agreement to report the prices at which it sells to the Public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wires.

**GOOD FAITH DEPOSIT:** A bank cashier's check, payable to the order of "Lovejoy Independent School District", in the amount of \$611,200 which is 2% of the proposed par value of the Bonds (the "Good Faith Deposit"), is required to accompany any bid. The Good Faith Deposit of the Purchaser will be retained uncashed by the District pending the Purchaser's compliance with the terms of its bid and this Official Notice of Sale. In the event the Purchaser should fail or refuse to take up and pay for the Bonds in accordance with its bid, then said check shall be cashed and accepted by the District as full and complete liquidated damages. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately; however, if submitted separately, it shall be made available to the District prior to the opening of the bids, and shall be accompanied by instructions from the bank on which it is drawn which authorizes its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery.** No interest will be allowed on the Good Faith Deposit. Checks accompanying bids other than the winning bid will be returned promptly after the bids are opened, and an award of the Bonds has been made by the District.

**ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:**

2252.908, (the "Interested Party Disclosure Act") the District may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"),

or

(ii) certifies in the Official Bid Form that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

In the event that the bidder's bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the winning bidder. That notification will serve as the District's conditional verbal acceptance of the bid, and, unless the bidder is exempt from filing a Disclosure Form, such notification will obligate the winning bidder to promptly file a completed Disclosure Form, as described below, in order to allow the District to complete the award. The District reserves the right to reject any bid that does not comply with the requirements prescribed herein.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 – name of the governmental entity (*Lovejoy Independent School District*) and (b) item 3 – the identification number assigned to this contract by the District (*0001*) and description of the goods or services (*Purchase of the Lovejoy Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2021*). **The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require certain business entities contracting with the District to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, complete the unsworn declaration, sign, and deliver the certified Disclosure Form that is generated by the TEC's "electronic portal" to the District. The completed and signed Disclosure Form must be sent by email, to the District's financial advisor at [dwhitt@samccapital.com](mailto:dwhitt@samccapital.com) as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.** Upon receipt of the final written award, the winning bidder must submit the Disclosure Form with original signatures by email to Bond Counsel as follows: [jjulbas@mphlegal.com](mailto:jjulbas@mphlegal.com).

Preparations for completion, and the significance of, the reported information. To the extent that the bidder is not exempt from filing a Disclosure Form and therefor makes such filing with the District, the Interested Party Disclosure Act and the Disclosure Form provide that such declaration is made under penalty of perjury." Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. **Time will be of the essence in submitting the form to the District, and no final award will be made by the District regarding the sale of the Bonds until a completed Disclosure Form is received. The District reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein.** Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at [https://www.ethics.state.tx.us/whatsnew/elf\\_info\\_form1295.htm](https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm).

**IMPACT OF BIDDING SYNDICATE ON AWARD:** For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

**NO BOYCOTT OF ISRAEL VERIFICATION:** Pursuant to Chapter 2271, Texas Government Code, as amended ("Chapter 2271") the District and other governmental entities in the State may not enter into a contract with a company for goods or services unless the contract contains a written verification from the company that it: (1) does not boycott Israel; and (2) will not boycott Israel during the term of the contract. To enable the District to comply with Chapter 2271, and to enable it to contract for the sale of the Bonds, the Official Bid Form for the Bonds includes a written verification of the bidder to the effect described above. Each bidder should review the "no Israel boycott verification" included in the Official Bid Form prior to making a bid for the Bonds to determine whether such statement can be made, which is a condition to making a bid for the Bonds.

**VERIFICATION OF NO DEALINGS WITH FOREIGN TERRORIST ORGANIZATIONS:** Pursuant to Chapter 2252, Texas Government Code, the District will not award the Bonds to a bidder unless the bidder certifies that neither it nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the same, is a company that contracts with or provides supplies or services to a foreign terrorist organization, as defined by Section 2252.151(2), Texas Government Code, or identified as a company known to have contracts with or provide supplies or services to a foreign terrorist organization as identified on a list prepared and maintained under Sections 2270.0201 or 2252.153, Texas under Sections 2270.0201 or 2252.153, Texas Government Code. By submitting a bid, the potential purchaser makes and certifies to the representations necessary and convenient for the compliance with the aforementioned laws and, at the request of the District, agrees to execute further written certifications as may be necessary or convenience for the District to establish compliance with the aforementioned laws.

**VERIFICATION PURSUANT TO CHAPTER 2274 OF THE TEXAS GOVERNMENT CODE:** Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder boycotts energy companies or will boycott energy companies. The terms "boycotts energy companies" and "boycott energy companies" as used in this paragraph have the meaning assigned to the term "boycott energy company" in Section 809.001 of the Texas Government Code, as amended.

Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder discriminates against a firearm entity or firearm trade association. The term "discriminates against a firearm entity or firearm trade association" as used in this paragraph has the meaning assigned to the term "discriminate against a firearm entity or firearm trade association" in Section 2274.001 of the Texas Government Code, as amended.

## OFFICIAL STATEMENT

To assist the winning bidder (the "Purchaser" or Initial Purchaser") in complying with Rule 15c2-12, as amended (the "Rule"), of the United Securities and Exchange Commission ("SEC"), the Issuer and the Initial Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

**COMPLIANCE WITH RULE 15c2-12 OF THE SECURITIES AND EXCHANGE COMMISSION:** The Issuer has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds,

but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the Issuer deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Initial Purchaser shall be responsible for promptly informing the Issuer of the initial offering yields of the Bonds.

Thereafter, the Issuer will complete and authorize distribution of the final Official Statement, being a modification of the Preliminary Official Statement, identifying the Initial Purchaser and containing such omitted information. The Issuer does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the Issuer intends the same to be final as of such date, within the meaning of the Rule. Notwithstanding the foregoing, the Issuer makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION" as described below.

**FINAL OFFICIAL STATEMENT:** The Issuer will furnish to the Purchaser, within seven (7) business days after the sale date, an aggregate maximum of one hundred (100) copies of the Official Statement, together with information regarding interest rates, and other terms relating to the reoffering of the Bonds. In addition, the District agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The District consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with MSRB Rule G-32. The Purchaser may arrange at its own expense to have the Official Statement reproduced and printed if it requires more copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Bonds. The Purchaser will be responsible for providing information concerning the Issuer and the Bonds to subsequent purchasers of the Bonds, and the Issuer will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The Issuer's obligation to supplement the Official Statement to correct key representations determined to be omitted or materially misleading, after the date of the Official Statement, shall terminate 25 days after the sale date.

**CHANGES TO OFFICIAL STATEMENT:** If, subsequent to the date of the Official Statement, the Issuer learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser of any adverse event which causes the Official Statement to be incomplete or materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS – CONDITIONS TO DELIVERY," the Issuer will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to the Official Statement, in a "designated electronic format" satisfactory to the Initial Purchaser.

**CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION:** At the time of payment for and delivery of the hereinafter defined Initial Bonds ("Initial Delivery"), the Initial Purchaser will be furnished a certificate, executed by proper officials of the Issuer, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the Issuer contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the Initial Delivery, were and are true and correct in all material respects; (b) insofar as the Issuer and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the Issuer, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Issuer believes to be reliable and the Issuer has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the Issuer, since June 30, 2020, the date of the last financial statements of the Issuer appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds. The Official Statement and this Official Notice of Sale have been approved as to form and content and the use thereof in the offering of the Bonds has been authorized, ratified and approved by the Board in the Order, and the Initial Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Issuer.

**CONTINUING DISCLOSURE AGREEMENT:** The District has agreed in the Order to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Order containing the agreement described under such heading.

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

## **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL BONDS:** Initial Delivery will be accomplished by the issuance of two initial fully registered Bonds, with one initial bond for the aggregate principal amount of the CIBs, and one initial bond for the aggregate maturity amount of the CABs, payable to the Purchaser (the "Initial Bonds"), signed by the duly appointed officers of the Board, by their manual or facsimile signatures, approved by the Texas Attorney General, and registered and manually signed by the Texas Comptroller of Public Accounts. Initial Delivery will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Bonds, they shall be immediately canceled and one definitive Bond for each maturity of the Bonds payable to Cede & Co. will be delivered to DTC in connection with DTC's Book-Entry-Only System. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that the delivery of the Initial Bond can be made on or about November 18, 2021, but if for any reason the District is unable to make delivery by December 16, 2021, then the District shall immediately contact the Purchaser and offer to allow the Purchaser to extend its obligation to take up and pay for the Bonds an additional thirty days. If

the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the District and the Purchaser shall be relieved of any further obligation. In no event shall the District be liable for any damages by reason of its failure to deliver the Bonds, provided that such failure is due to circumstances beyond the District's reasonable control.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the Issuer; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Initial Purchaser.

**CONDITIONS TO DELIVERY:** The obligation to take up and pay for the Bonds is subject to the following conditions: the issuance of an approving opinion of the Attorney General of the State of Texas, the Initial Purchaser's receipt of the legal opinion of Bond Counsel and the certificate regarding the Official Statement, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE". In addition, if the Issuer fails to comply with its obligations described under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the Issuer within five (5) days thereafter.

**NO MATERIAL ADVERSE CHANGE:** The obligations of the Initial Purchaser to take up and pay for the Bonds, and of the Issuer to deliver the Initial Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Bonds, there shall have been no material adverse change in the affairs of the Issuer subsequent to the date of sale from that set forth in the Official Statement, as it may have been finalized, supplemented or amended through the date of Initial Delivery.

**LEGAL OPINIONS:** The District will furnish the Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas as to the Bonds, to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, regarding the legality and validity of the Bonds issued in compliance with the provisions of the Order. (See "LITIGATION" and "LEGAL MATTERS" in the Official Statement and "Appendix C – Form of Legal Opinion of Bond Counsel" attached to the Official Statement.)

**CHANGE IN TAX-EXEMPT STATUS:** At any time before the Bonds are tendered for initial delivery to the Initial Purchaser, the Initial Purchaser may withdraw its bid if the interest on obligations such as the Bonds shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

#### GENERAL CONSIDERATIONS

**RATING:** The Bonds are rated "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by S&P Global Ratings ("S&P"), based upon the Texas Permanent School Fund Guarantee Program. The District's current unenhanced, underlying ratings, including the Bonds, are "Aa2" by Moody's and "AA-" by S&P. There is no assurance that such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of said rating company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. Neither the District nor the Purchaser has undertaken any responsibility to advise owners of the Bonds of any lowering or withdrawal of such rating.

**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 exemptions provided in such Act. The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The Issuer 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 Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The Issuer agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Bonds, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but the District will in no instance execute a general consent to service of process in any state in which the Bonds are offered for sale.

**ADDITIONAL COPIES:** Subject to the limitations described herein, additional copies of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024.

In the Order, the Board has delegated to the Designated Financial Officer the authority to approve the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and the Board has authorized its further use in the reoffering of the Bonds by the Purchaser.

LOVEJOY INDEPENDENT SCHOOL DISTRICT

*Barrett Owens*

\_\_\_\_\_  
President, Board of Trustees

ATTEST:

*Anne Smith*  
\_\_\_\_\_  
Secretary, Board of Trustees

Dated: September 29, 2021



**OFFICIAL BID FORM**

President and Board of Trustees  
 Lovejoy Independent School District  
 259 Country Club Road  
 Allen, Texas 75002

October 6, 2021

Ladies & Gentlemen:

Reference is made to your Official Notice of Sale and Preliminary Official Statement dated September 29, 2021 of \$30,560,000\* LOVEJOY INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2021 (the "Bonds"), both of which constitute a part hereof.

The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Capital Appreciation Bonds ("CABs") (the CIBs and collectively with the CABs, are referred to herein as the "Bonds"). The Bonds, including the CABs are being sold on an all or none basis and the winning bidder agrees to purchase the CABs at the yields to be negotiated with the District after review of the bids for the CIBs. If no agreement can be reached on the yields for the CABs between the bidder and the District, the District may reject the bidder's bid and accept the next lowest true interest cost bid for the CIBs. The maturity amounts of the CABs are preliminary and may be adjusted on the Sale Date.

| Maturity  | Principal Amount* | Maturity Amount* |
|-----------|-------------------|------------------|
| 2/15/2022 | \$625,000         | \$4,125,000      |

(Interest to Accrete from the Date of Delivery)

(The CABs are not subject to optional redemption)

For your legally issued Bonds, as described in said Official Notice of Sale and Preliminary Official Statement, we will pay you a price of par value thereof plus a cash premium of \$ \_\_\_\_\_ **(no bid producing a cash premium that results in a dollar price of less than \$106.00 nor greater than \$115.00 will be considered)** for CIBs maturing and bearing interest as follows:

| Maturity  | Principal Amount* | Interest Rate (%)** | Maturity  | Principal Amount* | Interest Rate (%)** |
|-----------|-------------------|---------------------|-----------|-------------------|---------------------|
| 2/15/2022 | \$1,645,000       | 5.00                | 2/15/2031 | \$ 235,000        |                     |
| 2/15/2023 | 5,015,000         | 5.00                | 2/15/2032 | 850,000           |                     |
| 2/15/2024 | 2,790,000         | 5.00                | 2/15/2033 | 475,000           |                     |
| 2/15/2025 | 775,000           |                     | 2/15/2034 | 490,000           |                     |
| 2/15/2026 | 795,000           |                     | 2/15/2035 | 495,000           |                     |
| 2/15/2027 | 825,000           |                     | 2/15/2036 | 2,495,000         |                     |
| 2/15/2028 | 855,000           |                     | 2/15/2037 | 2,575,000         |                     |
| 2/15/2029 | 220,000           |                     | 2/15/2038 | 2,650,000         |                     |
| 2/15/2030 | 230,000           |                     | 2/15/2039 | 6,520,000         |                     |

(Interest to Accrue from the Date of Delivery)

\*\*See "TYPES OF BIDS AND INTEREST RATES" for the interest range that must be bid for the denoted maturities.

Of the principal maturities of the CIBs set forth in the table above, we have created term bonds (the "Term Bonds") as indicated in the following table (which may include multiple Term Bonds, one Term Bond or no Term Bond if none is indicated). For those years which have been combined into a Term Bond, the principal amount shown in the table above will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Bond maturity date will mature in such year. The Term Bonds created are as follows:

| Term Bond Maturity Date | Year of First Mandatory Redemption | Principal Amount of Term Bond | Interest Rate |
|-------------------------|------------------------------------|-------------------------------|---------------|
| February 15             |                                    |                               |               |
| _____                   | _____                              | _____                         | _____         |
| _____                   | _____                              | _____                         | _____         |

Our calculation (which is not a part of this bid) of the interest cost in accordance with the above bid is:

TRUE INTEREST COST \_\_\_\_\_ %

By accepting this bid, we understand the District will provide the copies of the Official Statement and of any amendments or supplements thereto in accordance with the Official Notice of Sale.

The Initial Bond(s) shall be registered in the name of the syndicate manager. We will advise DTC of registration instructions at least five business days prior to the date set for Initial Delivery. It is the obligation of the Purchaser of the Bonds to complete the DTC Eligibility Questionnaire.

Cashier's Check of the \_\_\_\_\_ (bank), \_\_\_\_\_ (location), in the amount of \$611,200 which represents our Good Faith Deposit is attached hereto or has been made available to you prior to the opening of the bid, in accordance with the terms set forth in the Official Notice of Sale and the Preliminary Official Statement. The Good Faith Deposit of the Purchaser will be returned to the Purchaser on the date of Initial Delivery upon completion of the closing.

\*Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" in the Official Notice of Sale and Bidding Instructions.

We agree to accept delivery of the Initial Bond(s) through DTC and make payment for the Initial Bond(s) in immediately available funds at BOKF, NA Dallas, Texas, no later than 10:00 A.M., Central time, on November 18, 2021 or thereafter on the date the Initial Bond(s) are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale.

The Issuer will consider any bid submitted pursuant to the Notice of Sale relating to the Bonds to be a firm offer for the purchase of the Bonds.

The undersigned agrees to complete, execute and deliver to the District by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

For purposes of contracting for the sale of the Bonds, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Bonds. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the District is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

No Boycott of Israel Verification. To the extent this bid for the Bonds represents a contract for goods or services within the meaning of Section 2271.002 of the Texas Government Code, as amended, the Purchaser verifies, for purposes of Chapter 2271 of the Texas Government Code, that, except to the extent otherwise required by applicable federal law, at the time of execution and delivery of this bid and to the date of delivery of the Bonds, neither the Purchaser, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the Purchaser, boycotts or will boycott Israel. The terms "company", "boycotts Israel" and "boycott Israel" as used in this paragraph have the meanings assigned to the term "boycott Israel" in Section 808.001 of the Texas Government Code, as amended.

Verification Regarding Foreign Terrorist Organizations. The Purchaser represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under section 2252.153 or Section 2270.0201, Texas Government Code, as amended, and posted on any of the following pages of such officer's Internet website:

<https://comptroller.texas.gov/purchasing/docs/sudanlist.pdf>,  
<https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or  
<https://comptroller.texas.gov/purchasing/docs/ftolist.pdf>.

The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, as amended, and to the extent such Section does not contravene applicable State or federal law and excludes the Purchaser and the Purchaser's parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. The Purchaser understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with, the Purchaser and exists to make a profit.

No Boycott of Energy Companies. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, to the extent this bid for the Bonds is a contract for goods or services, does not boycott energy companies as of the date of delivery of this bid, and will not boycott energy companies through the date of initial delivery of the Bonds. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, "boycott energy companies" means, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company: (a) engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or (b) does business with a company described by (a). The bidder understands "affiliate" to mean an entity that controls or is controlled by, or is under common control with, the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Bonds, the Office of the Texas Attorney General make require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter.**

No Discrimination Against Firearm Entities or Firearm Trade Associations. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, to the extent this bid for the Bonds is a contract for goods or services, as of the date of delivery of this bid does not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association, and through the date of initial delivery of the Bonds will not discriminate against a firearm entity or firearm trade association. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, the terms "discriminates against a firearm entity or firearm trade association" and "discriminate against a firearm entity or firearm trade association" mean: (i) to refuse to engage in the trade of any goods or services with the entity or association based solely on its status as a firearm entity or firearm trade association, (ii) refrain from continuing an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association, or (iii) terminate an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association; but does not include a company's refusal to engage in the trade of any goods or services, decision to refrain from continuing an existing business relationship, or decision to terminate an existing business relationship (i) to comply with federal, state or local law, policy, or regulations or a directive by a regulatory agency, or (ii) for any traditional business reason that is specific to the customer or potential customer and not based solely on an entity's or association's status as a firearm entity or firearm trade association. The bidder understand "affiliate" to mean an entity that controls or is controlled by, or is under common control with, the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Bonds, the Office of the Texas Attorney General make require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter.**

In accordance with Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the District may not award the Bonds to a bidder unless the winning bidder either:

(i) submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the District as prescribed by the Texas Ethics Commission ("TEC"),

or

(ii) certifies below that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

Unless the bidder certifies that it is exempt from filing a Disclosure Form with the District, upon notification of conditional verbal acceptance and if required, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed and sent by email to the District's financial advisor at [dwhitt@samcocapital.com](mailto:dwhitt@samcocapital.com). The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the District from providing final written award of the enclosed bid.

The Purchaser (mark one):

(i) Agrees to timely make a filing of a completed Disclosure Form with the District

or

(ii) Hereby certifies that it is exempt from filing the Disclosure Form by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity .

Respectfully submitted,

\_\_\_\_\_  
(Purchaser)

\_\_\_\_\_  
(Signature - Title)

\_\_\_\_\_  
(Telephone)

[District signature page follows.]

**ACCEPTANCE CLAUSE**

THE FOREGOING BID IS IN ALL THINGS HEREBY ACCEPTED this October 6, 2021 by a Designated Financial Official of the District by authority conveyed in the Orders of the Board of Trustees of the Lovejoy Independent School District adopted on January 25, 2021 and August 23, 2021.

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Designated Financial Official

ISSUE PRICE CERTIFICATE

(Form of Certificate if at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters (“Purchaser”), with respect to the purchase at competitive sale of the Unlimited Tax School Building and Refunding Bonds, Series 2021 issued by the Lovejoy Independent School District (“Issuer”) in the principal amount of \$30,560,000\* (“Bonds”), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Bonds by the Purchaser, the Purchaser’s reasonably expected initial offering prices of each maturity of the Bonds with the same credit and payment terms (the “Expected Offering Prices”) to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter (“Public”) are as set forth in the pricing wire or equivalent communication for the Bonds, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Bonds used by the Purchaser in formulating its bid to purchase the Bonds.

(b) The Purchaser had an equal opportunity to bid to purchase the Bonds and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Bonds.

(d) The first prices at which at least ten percent (“Substantial Amount”) of the principal amount of the Capital Appreciation Bonds maturing in 2022 was sold to the Public at their respective Expected Offering Prices, as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A. On or before the first day (“Sale Date”) on which there is a binding contract in writing for the sale of the Capital Appreciation Bonds maturing in 2022 (a Hold-the-Price-Maturity) the Purchaser offered to the Public each such Hold-the-Price-Maturity at their respective Expected Offering Prices, as set forth in Schedule A hereto. As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Expected Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Bonds to the Public at no higher price than the Expected Offering Price for such Maturity.

For purposes of this Issue Price Certificate, the term “Underwriter” means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

\* Preliminary, subject to change. See “THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS” herein.

ISSUE PRICE CERTIFICATE

(Form of Certificate if less than 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Unlimited Tax School Building and Refunding Bonds, Series 2021 issued by the Lovejoy Independent School District ("Issuer") in the principal amount of \$30,560,000\* ("Bonds"), hereby certifies and represents, based on its records and information, as follows:

(a) [Other than the Bonds maturing in \_\_\_\_ ("Hold-the-Price Maturities"), the][The] first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Bonds having the same credit and payment terms ("Maturity") was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices, as listed in the pricing wire or equivalent communication for the Bonds that is attached to this Certificate as Schedule A.

(Add (b) and (c) only if winning bidder designates one or more maturities as Hold-the-Price Maturities)

(b) On or before the first day on which there is a binding contract in writing for the sale of the Bonds ("Sale Date"), the Purchaser offered to the Public each Maturity of the Hold-the-Price Maturities at their respective initial offering prices, as set forth in Schedule A hereto ("Initial Offering Price").

(c) As set forth in the Notice of Sale, the Purchaser agreed in writing to neither offer nor sell any of the Hold-the-Price Maturities to any person at any higher price than the Initial Offering Price for each such Maturity until the earlier of the close of the fifth business day after the Sale Date or the date on which the Purchaser sells at least ten percent of a Hold-the-Price-Maturity of the Bonds to the Public at no higher price than the Initial Offering Price for such Maturity.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public) to participate in the initial sale of the Bonds to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this [ISSUE DATE].

[NAME OF PURCHASER], as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

\* Preliminary, subject to change. See "THE BONDS – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" herein.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION

*(Attached)*

# CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.  
Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY  
CERTIFICATION OF FILING**

**1 Name of business entity filing form, and the city, state and country of the business entity's place of business.**

**2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.**

Lovejoy Independent School District

**3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.**

0001

Purchase of the Lovejoy Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2021

| 4 | Name of Interested Party | City, State, Country (place of business) | Nature of interest (check applicable) |              |
|---|--------------------------|--|---------------------------------------|--------------|
|   |                          |  | Controlling                           | Intermediary |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |
|   |                          |  |                                       |              |

**5 Check only if there is NO Interested Party.**

**6 UNSWORN DECLARATION**

My name is \_\_\_\_\_, and my date of birth is \_\_\_\_\_.

My address is \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_.  
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in \_\_\_\_\_ County, State of \_\_\_\_\_, on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.  
(month) (year)

\_\_\_\_\_  
Signature of authorized agent of contracting business entity  
(Declarant)



**BOND YEARS**

**\$30,560,000\***

**LOVEJOY INDEPENDENT SCHOOL DISTRICT**

(Collin County, Texas)

**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2021**

Dated: November 15, 2021

Due: February 15

| Year | Amount*      | Bond Years*  |                       |
|------|--------------|--------------|-----------------------|
|      |              | Bond Years   | Cumulative Bond Years |
| 2022 | \$ 2,270,000 | 548.5818     | 548.5818              |
| 2023 | 5,015,000    | 6,226.9550   | 6,775.5368            |
| 2024 | 2,790,000    | 6,254.2481   | 13,029.7850           |
| 2025 | 775,000      | 2,512.2912   | 15,542.0761           |
| 2026 | 795,000      | 3,372.1245   | 18,914.2006           |
| 2027 | 825,000      | 4,324.3745   | 23,238.5750           |
| 2028 | 855,000      | 5,336.6244   | 28,575.1995           |
| 2029 | 220,000      | 1,593.1665   | 30,168.3660           |
| 2030 | 230,000      | 1,895.5832   | 32,063.9492           |
| 2031 | 235,000      | 2,171.7915   | 34,235.7407           |
| 2032 | 850,000      | 8,705.4161   | 42,941.1568           |
| 2033 | 475,000      | 5,339.7914   | 48,280.9481           |
| 2034 | 490,000      | 5,998.4163   | 54,279.3644           |
| 2035 | 495,000      | 6,554.6247   | 60,833.9891           |
| 2036 | 2,495,000    | 35,532.9567  | 96,366.9458           |
| 2037 | 2,575,000    | 39,247.2900  | 135,614.2357          |
| 2038 | 2,650,000    | 43,040.4149  | 178,654.6506          |
| 2039 | 6,520,000    | 112,415.6623 | 291,070.3130          |

Average Maturity = 9.525

\*Preliminary, subject to change. See "THE BONDS - ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE BONDS" in the Official Notice of Sale and Bidding Instructions.

**PRELIMINARY OFFICIAL STATEMENT**  
**Dated: September 29, 2021**

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

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

**\$30,560,000\***  
**LOVEJOY INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Collin County, Texas)**  
**Unlimited Tax School Building and Refunding Bonds, Series 2021**

**Dated Date: November 15, 2021**

**Due: February 15, as shown on the inside cover page**

The Lovejoy Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2021 (the "Bonds") which are issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"), as shown on the inside cover page hereof, are being issued pursuant to the Constitution and general laws of the State of Texas particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 10, 2014 and orders (together, the "Order") authorizing the issuance of the Bonds adopted on January 25, 2021 and August 23, 2021 by the Board of Trustees (the "Board") of the Lovejoy Independent School District (the "District"). As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms for the Bonds. The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the CIBs will accrue from the date of initial delivery to the Purchaser (defined below), anticipated to occur on or about November 18, 2021 (the "Initial Delivery") and will be payable on February 15 and August 15 of each year, commencing February 15, 2022, until stated maturity or prior redemption. Interest on the CABs will accrete from the date they are initially delivered to the initial purchasers, compound semiannually on each February 15 and August 15, commencing February 15, 2022, and will be payable only upon stated maturity. The CIBs will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued as fully registered bonds in denominations of \$5,000 representing the total amount of principal, plus the initial premium, if any, paid therefor, and accreted interest payable upon stated maturity (the "Maturity Value"), or any integral multiple thereof. Principal and interest or Maturity Value of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the CIBs is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date.

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

Proceeds from the sale of the Bonds will be used to (i) acquire, construct and equip school buildings and acquire school buses, (ii) refund a portion of the District' outstanding bonds for debt service savings, and (iii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose" and "Schedule I – Schedule of Refunded Bonds").

The CIBs maturing on or after February 15, 2032 are subject to redemption at the option of the District in whole or in part on August 15, 2031 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the winning bidder for the Bonds, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. The CABs are not subject to redemption prior to their stated maturity. (see "THE BONDS – Mandatory Sinking Fund Redemption").

**MATURITY SCHEDULE**  
(On Inside Cover)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser (the "Purchaser" or the "Initial Purchaser") 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. The Bonds are expected to be available for initial delivery through the services of DTC on or about November 18, 2021.*

**BIDS DUE OCTOBER 6, 2021 BY 10:00 A.M., CENTRAL TIME**

*\*Preliminary, subject to change.*

**\$30,560,000\***  
**LOVEJOY INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Collin County, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2021**

**MATURITY SCHEDULE**  
Base CUSIP No.: 547160<sup>(1)</sup>

**\$29,935,000\* Current Interest Bonds**

| <b><u>Maturity Date</u></b><br><b><u>2/15</u></b> | <b><u>Principal Amount*</u></b> | <b><u>Interest Rate</u></b> | <b><u>Initial Yield</u></b> | <b><u>CUSIP No. Suffix<sup>(1)</sup></u></b> |
|---|---------------------------------|-----------------------------|-----------------------------|--|
| 2022  | \$1,645,000                     |                             |                             |  |
| 2023  | 5,015,000                       |                             |                             |  |
| 2024  | 2,790,000                       |                             |                             |  |
| 2025  | 775,000                         |                             |                             |  |
| 2026  | 795,000                         |                             |                             |  |
| 2027  | 825,000                         |                             |                             |  |
| 2028  | 855,000                         |                             |                             |  |
| 2029  | 220,000                         |                             |                             |  |
| 2030  | 230,000                         |                             |                             |  |
| 2031  | 235,000                         |                             |                             |  |
| 2032  | 850,000                         |                             |                             |  |
| 2033  | 475,000                         |                             |                             |  |
| 2034  | 490,000                         |                             |                             |  |
| 2035  | 495,000                         |                             |                             |  |
| 2036  | 2,495,000                       |                             |                             |  |
| 2037  | 2,575,000                       |                             |                             |  |
| 2038  | 2,650,000                       |                             |                             |  |
| 2039  | 6,520,000                       |                             |                             |  |

(Interest to accrue from the Delivery Date)

**\$625,000\* Capital Appreciation Bonds**

| <b><u>Maturity Date</u></b><br><b><u>2/15</u></b> | <b><u>Principal Amount*</u></b> | <b><u>Initial Yield to Maturity</u></b> | <b><u>Maturity Value*</u></b> | <b><u>Initial Offering Price per \$5,000 in Maturity Value</u></b> | <b><u>CUSIP Suffix No.<sup>(1)</sup></u></b> |
|---|---------------------------------|---|-------------------------------|--|--|
| 2022  | \$625,000                       |   | \$4,125,000                   |  |  |

(Interest to accrete from the initial Delivery Date)

<sup>\*</sup>Preliminary, subject to change.

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

# LOVEJOY INDEPENDENT SCHOOL DISTRICT

## BOARD OF TRUSTEES

| <u>Name</u>               | <u>Date Initially Elected</u> | <u>Current Term Expires</u> | <u>Occupation</u>               |
|---------------------------|-------------------------------|-----------------------------|---------------------------------|
| Barrett Owens, President  | 2019                          | 2024                        | Custom Home Builder             |
| Amy Smith, Vice President | 2016                          | 2022                        | Director of Education Solutions |
| Anne Smith, Secretary     | 2017                          | 2023                        | Homemaker                       |
| Marvin Bobo, Member       | 2020                          | 2023                        | Real Estate Manager             |
| Chad Collins, Member      | 2009                          | 2022                        | Healthcare Executive            |
| Jason Jaynes, Member      | 2021                          | 2024                        | Financial Planner               |
| Jeff Wood, Member         | 2020                          | 2022                        | Lawyer                          |

## APPOINTED OFFICIALS

| <u>Name</u>            | <u>Position</u>  | <u>Length of Education Service</u> | <u>Length of Service with the District</u> |
|------------------------|--|------------------------------------|--|
| Katie Kordel           | Superintendent   | 23 Years                           | 2 Months                                   |
| Dennis Muizers         | Assistant Superintendent of Curriculum & Instructions      | 25 Years                           | 17 Years                                   |
| Dr. Laurie Tinsley     | Assistant Superintendent of Student Services               | 25 Years                           | 1 Month                                    |
| Dr. Jennifer DuPlessis | Chief Financial Officer                                    | 11 Years                           | 1 Month                                    |
| Sancy Fuller           | Executive Director of Special Education & Student Services | 21 Years                           | 13 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, PC, Denton, Texas | Certified Public Accountants |

For additional information, contact:

Dr. Jennifer DuPlessis  
Chief Financial Officer  
Lovejoy Independent School District  
259 Country Club Road  
Allen, Texas 75002  
(469) 742-8004

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

**USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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

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

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

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

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

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER 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 PURCHASER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

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

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

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## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

|  |  |
|--|--|
| <b>The District</b>                    | The Lovejoy Independent School District (the "District") is a political subdivision of the State of Texas located in Collin 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.   |
| <b>The Bonds</b>                       | The Bonds are being issued in the principal amount of \$30,560,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371") an election held in the District on May 10, 2014, and orders (together, the "Order") authorizing the issuance of the Bonds adopted by the Board on January 25, 2021 and August 23, 2021. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials to execute an approval certificate establish the pricing terms for the Bonds. The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"). Proceeds from the sale of the Bonds will be used to (i) acquire, construct and equip school buildings and acquire school buses, (ii) refund a portion of the District's outstanding bonds for debt service savings, and (iii) pay the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose"). |
| <b>Paying Agent/Registrar</b>          | The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).  |
| <b>Security</b>                        | The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").   |
| <b>Redemption</b>                      | The CIBs maturing on or after February 15, 2032 are subject to redemption at the option of the District in whole or in part on August 15, 2031 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. The CABs are not subject to redemption prior to stated maturity. (See "THE BONDS - Optional Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "Term Bonds" by the winning bidder for the Bonds, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see "THE BONDS – Mandatory Sinking Fund Redemption").   |
| <b>Permanent School Fund Guarantee</b> | The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")   |
| <b>Ratings</b>                         | The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's unenhanced, underlying ratings, including the Bonds, are "Aa2" by Moody's and "AA-" by S&P. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the Guarantee Program" and "RATINGS" herein.)   |
| <b>Tax Matters</b>                     | In the opinion of Bond Counsel for the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")   |
| <b>Payment Record</b>                  | The District has never defaulted on the payment of its bonded indebtedness.  |
| <b>Legal Opinion</b>                   | 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.   |
| <b>Delivery</b>                        | When issued, anticipated to be on or about November 18, 2021.  |

## INTRODUCTORY STATEMENT

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

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined below) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Lovejoy Independent School District, 259 Country Club Road, Allen, Texas 75002 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

### 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 requires 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. The Governor affirmed that schools may not impose mask requirements in Executive Order GA-38. Updated public health guidance for public schools was subsequently published by TEA in accordance with GA-38. Various lawsuits have been filed throughout the State related to the foregoing. 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 Official Statement.

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 TEA recently 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 recently 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 as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

Additionally, state funding of District operations and maintenance in future fiscal years could be adversely impacted by the negative effects on economic growth and financial markets resulting from the Pandemic as well as ongoing disruptions in the global oil markets (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 Official Statement 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

### Authorization and Purpose

The Bonds are being issued in the principal amount of \$30,560,000 (preliminary, subject to change) pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 10, 2014 (the "Election") and orders (together, the "Order") authorizing the issuance of the Bonds adopted by the Board of Trustees (the "Board") on January 25, 2021 and August 23, 2021. As permitted by the provisions of Chapter 1207 and Chapter 1371, the Board, in the Order, delegated the authority to certain District officials to execute an approval certificate establishing the pricing terms for the Bonds. Proceeds from the sale of the Bonds will be used to (i) acquire, construct and equip school buildings and acquire school buses, (ii) refund a portion of the District's outstanding bonds (the "Refunded Bonds") for debt service savings and (iii) pay the costs of issuing the Bonds.

### Refunded Bonds

The Order provides that from a portion of the proceeds of the sale of the Bonds to the Purchaser, the District will deposit with BOKF, NA, Dallas, Texas, the escrow agent for the Refunded Bonds (the "Escrow Agent"), an amount, together with other lawfully available funds of the District, which will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on February 15, 2022 (the "Redemption Date"). Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") in cash uninvested or will be invested in Defeasance Securities authorized by Section 1207.062 Texas Government Code and the bond order authorizing the Refunded Bonds. Public Finance Partners LLC will issue its report (the "Report") verifying at the time of delivery of the Bonds to the Purchaser the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with any uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on and to the Redemption Date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL COMPUTATIONS").

By the deposit of cash and Defeasance Securities with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207 and the bond order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the Report, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the orders authorizing their issuance or for any other purpose, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds.

Upon defeasance of the Refunded Bonds, the payment of the Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

### General Description

The Bonds will be dated November 15, 2021 (the "Dated Date"). Interest on the Current Interest Bonds ("CIBs") will accrue from the Initial Delivery. The Premium Capital Appreciation Bonds ("CABs") will accrete interest from the date of initial delivery to the initial



purchasers to their stated maturity, as such amount is referred to herein as the "Maturity Value". The CIBs will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The CABs will mature on the dates and in the Maturity Values set forth on the inside cover page, and will accreted interest at the stated interest rates, but the yield to the Purchaser will be the approximate yields shown on the inside cover page resulting from the initial offering pricing to the public. Interest on the CIBs will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on February 15, 2022 and on each August 15 and February 15 thereafter until stated maturity or prior redemption.

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

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

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

### **Optional Redemption**

The CIBs maturing on or after February 15, 2032 are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, on August 15, 2031, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

The CABS are not subject to redemption prior to stated maturity.

### **Mandatory Sinking Fund Redemption**

If the successful bidder designates principal amounts of the Bonds to be combined into one or more Term Bonds, each such Term Bond will be subject to mandatory sinking fund redemption as provided in the Order and as further set forth in the Official Statement.

### **Notice of Redemption and DTC Notices**

Not less than 30 days prior to a redemption date for the CIBs, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a CIB to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE AND THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, INTEREST ON THE REDEEMED CIBS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CIB HAS NOT BEEN PRESENTED FOR PAYMENT.

All notices of redemption shall (i) specify the date of redemption for the CIBs, (ii) identify the CIBs 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 that the CIBs, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, 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 that payment of the redemption price for the CIBs, 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.

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

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

## **Yield on Premium Capital Appreciation Bonds**

The yields of the CABs as set forth on the inside cover page of this Official Statement are the approximate yields based upon the initial offering price therefor set forth on the inside cover page of this Official Statement. Such offering price includes the principal amount of such CABs plus premium equal to the amount by which such offering price exceeds the principal amount of such CABs. Because of such premium, the approximate offering yield on the CABs is lower than the bond interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

## **Security**

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

## **Permanent School Fund Guarantee**

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

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

## **Legality**

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

## **Payment Record**

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

## **Amendments**

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

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

## **Defeasance**

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

investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

|                               |  |          |
|-------------------------------|--|----------|
| <b>Sources</b>                |  |          |
| Par Amount of the CIBs        |  | \$       |
| Par Amount of the CABs        |  |          |
| Net Original Offering Premium |  |          |
| <b>Total Sources of Funds</b> |  | \$ _____ |
| <b>Uses</b>                   |  |          |
| Deposit to Construction Fund  |  | \$       |
| Deposit to Escrow Fund        |  |          |
| Costs of Issuance             |  |          |
| Purchaser's Discount          |  |          |
| <b>Total Uses of Funds</b>    |  | \$ _____ |

**REGISTERED OWNERS' REMEDIES**

The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to compel District officials to legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, including the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the 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, Maturity Value and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount or Maturity Value 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](http://www.dtcc.com).

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

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

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

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

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

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

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

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

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

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

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

## REGISTRATION, TRANSFER AND EXCHANGE

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

### **Successor Paying Agent/Registrar**

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

### **Initial Registration**

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

### **Future Registration**

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

### **Record Date For Interest Payment**

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

### **Limitation on Transfer of Bonds**

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

### **Replacement Bonds**

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

## **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

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

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

## **History and Purpose**

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

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

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

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

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

Audited financial information for the SBOE (as defined herein) financial portfolios of 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 State School Land Board's ("SLB") land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. 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, 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 (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the 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"), and (iv) 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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://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](http://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. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

## **Management and Administration of the Fund**

The Texas Constitution and applicable statutes delegate to the State Board of Education (the "SBOE") the authority and responsibility for investment of the PSF's financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office. See "2021 Legislation – SB 1232" for proposed changes affecting the management of the Fund.

The Texas Constitution provides that the Fund shall be managed through the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the "Prudent Person Standard"). 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.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. 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 below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property (the on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is hired by and reports to the Education Commissioner. Moreover, although the Fund's Executive Administrator and the PSF staff at TEA 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. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund.

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

The SBOE/PSF investment staff and the SBOE's investment consultant for the Fund 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. See "2021 Legislation – SB 1232" for a discussion of proposed changes to the management of the Fund.

The SBOE contracts with a financial institution for custodial and securities lending services in addition to the performance measurement of the total return of the Fund's financial assets managed by the SBOE. 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. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the employment and compensation options available to the management of the Fund.

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other financial statements of the State. See "2021 Legislation – SB 1232" for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Texas law assigns to the SLB the ability to control of the Fund's land and mineral rights and make investments in real assets. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner"). See "2021 Legislation – SB 1232" for proposed changes in the management of Fund assets by the SLB. The SLB manages the proceeds of the land and mineral rights that are administered by the GLO on behalf of the Fund. The SLB is governed by a five member board, the membership of which consists of the Land Commissioner, who sits as the chairman of the board, and four citizen members appointed by the Governor. The SLB and is generally authorized to invest in the following asset classes:

- Discretionary real assets investments consisting of externally managed real estate, infrastructure, and energy/minerals investment funds, separate accounts, and co-investment vehicles; internally managed direct real estate investments, and associated cash;
- Sovereign and other lands, being the lands set aside for the Fund when it was created, and other various lands not considered discretionary real asset investments; and,
- Mineral interests associated with Fund lands.

See "2021 Legislation – SB 1232" for changes in State law that pertain to the SLB's future authority to manage the land and mineral rights. At August 31, 2020, the SLB managed approximately 15% of the PSF, as reflected in the fund balance of the PSF at that date.

In 2019, the Texas Legislature enacted legislation that required 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. The inaugural joint meeting was held in September 2020. Other legislation enacted in 2019 included a bill that created a "permanent school fund liquid account" (the "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. That legislation also provided for the SBOE to administer and invest the Liquid Account and required the TEA, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. That study (the "PSF Distribution Study"), dated August 31, 2020, is available at <https://tea.texas.gov/sites/default/files/TEA-Distribution-Study.pdf>.

### **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. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of

administering the PSF were allocated to the ASF. 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, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) 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." The definition of intergenerational equity that the SBOE has generally followed is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon its staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

On November 8, 2011, a referendum was held in the State at which voters of the State 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 November 8, 2011 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 was 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.

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) 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, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The following table shows amounts distributed to the ASF from the portions of the Fund administered by the SBOE (the "PSF(SBOE)") and the SLB (the "PSF(SLB)").

**Annual Distributions to the Available School Fund<sup>1</sup>**

| <b>Fiscal Year Ending</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b>        |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------------|
| PSF(SBOE) Distribution    | \$1,093     | \$1,021     | \$1,021     | \$839       | \$839       | \$1,056     | \$1,056     | \$1,236     | \$1,236     | \$1,102            |
| PSF(SLB) Distribution     | \$0         | \$0         | \$300       | \$0         | \$0         | \$0         | \$0         | \$0         | \$300       | \$600 <sup>2</sup> |
| Per Student Distribution  | \$246       | \$221       | \$281       | \$175       | \$173       | \$215       | \$212       | \$247       | \$306       | \$347              |

<sup>1</sup> In millions of dollars. Source: PSF Annual Report for year ended August 31, 2020.

<sup>2</sup> In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2020, the SBOE approved a projected \$3.4 billion distribution to the ASF for State fiscal biennium 2022-2023. In making its determination of the 2022-2023 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$875 million for the biennium.

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



| <u>State Fiscal Biennium</u>              | <u>2008-09</u> | <u>2010-11</u> | <u>2012-13</u> | <u>2014-15</u> | <u>2016-17</u> | <u>2018-19</u> | <u>2020-21</u> | <u>2022-23</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <u>SBOE Distribution Rate<sup>1</sup></u> | 3.5%           | 2.5%           | 4.2%           | 3.3%           | 3.5%           | 3.7%           | 2.974%         | 4.18%          |

<sup>1</sup> Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF.

See “2021 Legislation – SB 1232” for a discussion of proposed changes in the management of the Fund that may impact distributions to the ASF.

### **2021 Legislation - Senate Bill 1232**

During the 87th Regular Session of the Texas Legislature, which concluded on May 31, 2021 Senate Bill 1232 (“SB 1232” or “the bill”) was enacted, which relates to the management and investment of the Fund. Among other provisions of SB 1232 are provisions authorizing the creation of the Texas Permanent School Fund Corporation (the “PSF Corporation”) by the SBOE. If the PSF Corporation is created, the SBOE would delegate to the PSF Corporation the SBOE’s authority to manage and invest the Fund. Also, the bill would limit the authority of the SLB to manage and invest the Fund if the PSF Corporation is created. The SBOE is not required to create the PSF Corporation, but if it does not do so by December 31, 2022, then the statutory changes related to the SLB do not take effect. While the creation of the PSF Corporation is not mandatory, it is expected that the SBOE will create the PSF Corporation.

As required by State law, the Legislative Budget Board (“LBB”) issued a fiscal note on SB 1232. The fiscal notes stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill cannot be determined at this time. However, the fiscal note states that TEA and the GLO project that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. SB 1232 provides for various transition dates relating to implementation of the bill, with the latest dates generally in calendar year 2023. As a result, the planning and implementation of the creation and operation of the PSF Corporation by the SBOE and future PSF Corporation board members will necessarily evolve over time with much of the detail relating to those matters yet to be determined.

Among other provisions, of the bill, it provides that the PSF Corporation, the SBOE and TEA shall coordinate to determine the PSF Corporation’s role in the operation and management of the Guarantee Program to ensure the proper and efficient operation of the program.

The description of SB 1232 that follows summarizes some key provisions of the bill. The full text of the bill can be found at <https://capitol.texas.gov/BillLookup/Text.aspx?LegSess=87R&Bill=SB1232>.

If created, the PSF Corporation will be a special-purpose governmental corporation and instrumentality of the State and will be entitled to sovereign immunity. The PSF Corporation will be governed by nine-member board of directors (the “Board”), consisting of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management; with one of the appointees being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate. The chief executive officer of the PSF Corporation will be employed by the Board and will have responsibility for engaging all employees, all of whom will be State employees. Among other powers, the PSF Corporation will be exempt from State laws regulating or limiting purchasing by State agencies and it will be authorized to engage in any activity necessary to manage the investments of the PSF, including contracting in connection with the investment of the PSF to the extent the activity complies with applicable fiduciary duties.

The bill grants the PSF Corporation discretion in determining the applicability to the corporation of certain State laws, including personnel and compensation, purchasing, information technology, and other support services.

SB 1232 authorizes the SBOE to delegate investment authority over the PSF and the Charter District Reserve Fund to the PSF Corporation. In addition, the bill provides for the dissolution of the Liquid Account (which held approximately \$4 billion at the close of fiscal year 2020) and the blending of amounts therein into the general investment portfolio of the PSF, subjecting such amounts to the general asset allocation of the PSF.

The PSF Corporation would be vested with the power to make distributions from the PSF to the ASF subject to the limitations of the Total Return Constitutional Amendment.

Not less than once each year, the Board would be required to submit an audit report to the LBB regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization would not affect the State Auditor’s authority to conduct an audit of the PSF Corporation in accordance with other State laws.

The bill amends provisions of the Texas Natural Resources Code (the “NRC”) that pertain to the authority of the SLB to manage public school land by limiting investments by the SLB to “real property holdings,” which are defined to mean direct or indirect interests in real property located in the State or any interest in a joint venture whose primary purpose is the acquisition, development, holding, and disposing of real property located in the State. The bill excludes from the definition of “real property holdings” any interest in an “investment vehicle,” and requires SLB to transfer mineral revenues to the PSF Corporation monthly. The determination of whether to make a direct transfer to the ASF from the revenues of the land or other properties is presently made by SLB, and the decision as to whether to make a direct transfer to the ASF, and the amount of such transfer, is solely within the purview of the SLB. That authorization would continue after creation of the PSF Corporation and implementation of the proposed changes set forth in SB 1232.

### **Asset Allocation of Fund Portfolios**

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. 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. 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 most recent asset allocation of the PSF(SBOE), approved by the SBOE in July 2020, is set forth below, along with the current asset allocations of the PSF(SLB) and the asset allocation of the Liquid Account. The next scheduled review of the PSF(SBOE) asset allocation is July 2022. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that could affect the responsibility for review of the asset allocation and the timing of asset allocation review, as well as elimination of the Liquid Account.

### PSF Strategic Asset Allocations

|                                      | <b>PSF<br/>Total</b> | <b>PSF(SBOE)</b> | <b>PSF(SLB)</b> | <b>Liquid<br/>Account</b> |
|--------------------------------------|----------------------|------------------|-----------------|---------------------------|
| <b>Equity Total</b>                  | 47%                  | 52%              | 0%              | 40%                       |
| <b>Public Equity Total</b>           | 34%                  | 37%              | 0%              | 40%                       |
| Large Cap US Equity                  | 13%                  | 14%              | 0%              | 20%                       |
| Small/Mid Cap US Equity              | 5%                   | 6%               | 0%              | 5%                        |
| International Equities               | 13%                  | 14%              | 0%              | 15%                       |
| Emerging Markets Equity              | 2%                   | 3%               | 0%              | 0%                        |
| <b>Private Equity</b>                | 13%                  | 15%              | 0%              | 0%                        |
| <b>Fixed Income Total</b>            | 27%                  | 25%              | 0%              | 40%                       |
| Core Bonds                           | 11%                  | 12%              | 0%              | 10%                       |
| High Yield                           | 2%                   | 3%               | 0%              | 0%                        |
| Emerging Markets Debt                | 6%                   | 7%               | 0%              | 0%                        |
| Treasuries                           | 2%                   | 3%               | 0%              | 0%                        |
| TIPS                                 | 3%                   | 0%               | 0%              | 5%                        |
| Short Duration                       | 2%                   | 0%               | 0%              | 25%                       |
| <b>Alternative Investments Total</b> | 25%                  | 22%              | 100%            |                           |
| Absolute Return                      | 6%                   | 7%               | 0%              | 0%                        |
| Real Estate                          | 12%                  | 11%              | 33%             | 0%                        |
| Real Return                          | 1%                   | 4%               | 0%              | 0%                        |
| Energy                               | 3%                   | 0%               | 35%             | 0%                        |
| Infrastructure                       | 3%                   | 0%               | 32%             | 0%                        |
| <b>Emerging Manager Program</b>      | 0%                   | 1%               | 0%              | 0%                        |
| <b>Cash</b>                          | 2%                   | 0%               | 0%              | 20%                       |

For a variety of reasons, each change in asset allocation for the Fund has been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified.

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2019 and 2020.

### Comparative Investment Schedule - PSF(SBOE)<sup>1</sup>

| Fair Value (in millions) August 31, 2020 and 2019 |                    |                    |                                     |                   |
|---|--------------------|--------------------|-------------------------------------|-------------------|
| ASSET CLASS                                       | August<br>31, 2020 | August<br>31, 2019 | Amount of<br>Increase<br>(Decrease) | Percent<br>Change |
| <b>EQUITY</b>                                     |                    |                    |                                     |                   |
| Domestic Small Cap                                | \$ 2,005.8         | \$1,645.8          | 360.0                               | 21.9%             |
| Domestic Large Cap                                | 5,106.3            | 4,643.7            | 462.6                               | 10.0%             |
| Total Domestic Equity                             | 7,112.1            | 6,289.5            | 822.6                               | 13.1%             |
| International Equity                              | 6,380.9            | 5,676.3            | 704.6                               | 12.4%             |
| <b>TOTAL EQUITY</b>                               | <b>13,493.0</b>    | <b>11,965.8</b>    | <b>1,527.2</b>                      | <b>12.8%</b>      |
| <b>FIXED INCOME</b>                               |                    |                    |                                     |                   |
| Domestic Fixed Income                             | 4,232.6            | 4,575.2            | (342.6)                             | -7.5%             |
| U.S. Treasuries                                   |                    |                    |                                     | N/A               |

|  |                 |                 |                |              |
|--|-----------------|-----------------|----------------|--------------|
|  | 918.7           | -               | 918.7          |              |
| Emerging Market Debt                   | 2,450.7         | 2,410.4         | 40.3           | 1.7%         |
| <b>TOTAL FIXED INCOME</b>              | <b>7,602.0</b>  | <b>6,985.6</b>  | <b>616.4</b>   | <b>8.8%</b>  |
| <b>ALTERNATIVE INVESTMENTS</b>         |                 |                 |                |              |
| Absolute Return                        | 3,517.2         | 3,622.6         | (105.4)        | -2.9%        |
| Real Estate                            | 3,102.1         | 2,983.5         | 118.6          | 4.0%         |
| Private Equity                         | 4,761.5         | 3,872.8         | 888.7          | 22.9%        |
| Risk Parity                            | 1,164.9         | 2,557.6         | (1,392.7)      | -54.5%       |
| Real Return                            | 2,047.4         | 2,109.3         | (61.9)         | -2.9%        |
| <b>TOT ALT INVESTMENTS</b>             | <b>14,593.1</b> | <b>15,145.8</b> | <b>(552.7)</b> | <b>-3.6%</b> |
| UNALLOCATED CASH                       | 122.9           | 163.3           | (40.4)         | -24.7%       |
| <b>TOTAL PSF(SBOE)<br/>INVESTMENTS</b> |                 |                 |                |              |
|  | \$              | \$              | \$             |              |
|  | 35,811.0        | 34,260.5        | 1,550.5        | 4.5%         |

Source: PSF Annual Report for year ended August 31, 2020.

<sup>1</sup> The investments shown in the table above at August 31, 2020 do not fully reflect the changes made to the PSF Strategic Asset Allocation in 2020, as those changes were still being phased in at the end of the fiscal year.

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously 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 Liquid Account (shown above), which, when adopted, was expected to be fully implemented in the first calendar quarter of fiscal year 2022. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

The table below sets forth the investments of the Liquid Account for the year ended August 31, 2020.

#### Liquid Account Fair Value at August 31, 2020<sup>1</sup>

|   |                         |
|---|-------------------------|
| <b>ASSET CLASS</b>                      |                         |
| Fixed Income                            |                         |
| Short-Term Fixed Income                 | \$1,597.3               |
| Unallocated Cash                        | <u>2,453.3</u>          |
| <b>Total Liquid Account Investments</b> | <b><u>\$4,050.6</u></b> |

<sup>1</sup> In millions of dollars.

Source: PSF Annual Report for year ended August 31, 2020.

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2019 and 2020.

#### Comparative Investment Schedule - PSF(SLB)

Fair Value (in millions) August 31, 2020 and 2019

| Asset Class  | As of<br>8-31-20 | As of<br>8-31-19 | Increase<br>(Decrease) | Percent<br>Change |
|--|------------------|------------------|------------------------|-------------------|
| Discretionary Real Assets Investments                  |                  |                  |                        |                   |
| Externally Managed                                     |                  |                  |                        |                   |
| Real Assets Investment Funds <sup>1</sup>              |                  |                  |                        |                   |
| Energy/Minerals  | \$1,164.0        | \$1,667.6        | \$(503.6)              | -30.2%            |
| Infrastructure   | 1,485.4          | 1,226.3          | 259.1                  | 21.1%             |
| Real Estate  | 1,174.8          | 1,033.6          | 141.2                  | 13.7%             |
| Internally Managed Direct                              |                  |                  |                        |                   |
| Real Estate Investments                                | 219.5            | 247.3            | (27.8)                 | -11.2%            |
| <b>Total Discretionary<br/>Real Assets Investments</b> | <b>4,043.7</b>   | <b>4,174.8</b>   | <b>(131.1)</b>         | <b>-3.1%</b>      |

|   |           |            |             |        |
|---|-----------|------------|-------------|--------|
| Dom. Equity Rec'd as In-Kind Distribution | 0.9       | 1.3        | (0.4)       | -30.8% |
| Sovereign and Other Lands                 | 408.6     | 372.3      | 36.3        | 9.8%   |
| Mineral Interests                         | 2,115.4   | 3,198.2    | (1,082.8)   | -33.9% |
| Cash at State Treasury <sup>2</sup>       | 333.8     | 4,457.3    | (4,123.5)   | -92.5% |
| Total PSF(SLB)                            |           |            |             |        |
| Investments                               | \$6,902.4 | \$12,203.9 | \$(5,301.5) | -43.4% |

<sup>1</sup> The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.

<sup>2</sup> Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

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. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events and the market impact of domestic and international climate change; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and, PSF operational limitations impacted by Texas law or legislative appropriation. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that may affect these factors. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

### The School District Bond Guarantee Program

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

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, 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 Education Commissioner for designation as a "charter district" and for a guarantee by the PSF under the Act of bonds issued on behalf of a charter district by a non-profit corporation. If the conditions for the Charter District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

As of March 2021 (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 6.83%. At August 19, 2021, there were 191 active open-enrollment charter schools in the State and there were 888 charter school campuses active under such charters (though as of such date, 53 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 Education 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 Education Commissioner may not approve the guarantee of refunding or refinancing bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. 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 makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBGP Capacity is made available from the capacity of the Guarantee Program, but is not reserved exclusively for the Charter District Bond Guarantee Program. See “Capacity Limits for the Guarantee Program” 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, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

**Capacity Limits for the Guarantee Program**

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

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

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

| <u>Changes in SBOE-determined multiplier for State law capacity</u> |                   |
|---|-------------------|
| <u>Date</u>   | <u>Multiplier</u> |
| Prior to May 2010   | 2.50              |
| May 2010  | 3.00              |
| September 2015  | 3.25              |
| February 2017   | 3.50              |
| September 2017  | 3.75              |
| February 2018 (current)   | 3.50              |

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. On December 16, 2009, the IRS published Notice 2010-5 (the “IRS Notice”) stating that the IRS would 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 provided 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 became 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.

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. 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 (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. Effective 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 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 Education 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 Education 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/](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 Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE is seeking changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the IRS will issue guidance that would increase the IRS Limit. The implementation of the Charter School Bond Guarantee Program has also increased the total amount of guaranteed bonds.

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

The CDBG Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBG Capacity is established effective as of September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBG Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBG Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBG Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBG Capacity to begin with the State fiscal year that commences September 1, 2021 (the State's fiscal year 2022) but authorized the SBOE discretion to increase the CDBG Capacity incrementally in the intervening four fiscal years, beginning with fiscal year 2018 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, which it has done.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 6.83% in March 2021. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

In addition to modifying the manner of determining the CDBG Capacity, SB 1480 provided that the Education Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBG Rules previously required the Education 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 Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At July 31, 2021, the Charter District Reserve Fund contained \$63,249,051, which represented approximately 2.02% of the guaranteed charter district bonds. In 2018, the management of the Reserve Fund was transferred from the Texas Comptroller 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. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

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

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

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

### Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency’s essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Results of the PSF operations through the fiscal year ended August 31, 2020 and at other periodic points in time are set forth herein or incorporated herein by reference. Fund management is of the view that since the onset of the pandemic the Fund has performed generally in accordance with its portfolio benchmarks and with returns generally seen in the national and international investment markets in which the Fund is invested (see “Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020”).

Circumstances regarding the COVID-19 pandemic continue to evolve; 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>.

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. However, through the end of July 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

For information on the September 2020 special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, that was made in light of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas, see “The Total Return Constitutional Amendment.”

### 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<br>Ended 8/31 | Book Value <sup>(1)</sup> | Market Value <sup>(1)</sup> |
|---------------------------|---------------------------|-----------------------------|
| 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 <sup>(2)</sup>       | 36,642,000,738            | 46,764,059,745              |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 July 31, 2021, the PSF had a book value of \$38,340,467,590 and a market value of \$53,232,714,384. July 31, 2021 values are based on unaudited data, which is subject to adjustment.

#### Permanent School Fund Guaranteed Bonds

| At 8/31 | Principal Amount <sup>(1)</sup> |
|---------|---------------------------------|
| 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 <sup>(2)</sup>   |

<sup>(1)</sup> 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.



<sup>(2)</sup> At 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 Capacity Limit), net of the Capacity Reserve, as of July 31, 2021, 5.66% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of August 31, 2020 and July 31, 2021, the amount of outstanding bond guarantees represented 77.00% and 81.07%, respectively, of the Capacity Limit (which is currently the IRS Limit). July 31, 2021 data is unaudited and is subject to adjustment.

**Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

| Fiscal<br>Year<br>Ended | School District Bonds |                     | Charter District Bonds |                     | Totals           |                     |
|-------------------------|-----------------------|---------------------|------------------------|---------------------|------------------|---------------------|
|                         | No. of<br>Issues      | Principal<br>Amount | No. of<br>Issues       | Principal<br>Amount | No. of<br>Issues | Principal<br>Amount |
| 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 <sup>(2)</sup>     | 3,296                 | 87,800,478,245      | 64                     | 2,536,202,000       | 3,360            | 90,336,680,245      |

<sup>(1)</sup> 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.

<sup>(2)</sup> At July 31, 2021 (based on unaudited data, which is subject to adjustment), there were \$95,115,492,855 of bonds guaranteed under the Guarantee Program, representing 3,390 school district issues, aggregating \$91,990,680,855 in principal amount and 76 charter district issues, aggregating \$3,124,812,000 in principal amount. At July 31, 2021, the CDBG Capacity was \$6,309,019,662 (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 Liquid 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. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2020.

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.

**PSF Returns Fiscal Year Ended 8-31-2020<sup>1</sup>**

| <u>Portfolio</u>                      | <u>Return</u> | <u>Benchmark Return<sup>2</sup></u> |
|---------------------------------------|---------------|-------------------------------------|
| Total PSF(SBOE) Portfolio             | 7.50%         | 8.54%                               |
| Domestic Large Cap Equities(SBOE)     | 22.37         | 21.94                               |
| Domestic Small/Mid Cap Equities(SBOE) | 3.44          | 2.83                                |
| International Equities(SBOE)          | 8.80          | 8.31                                |
| Emerging Market Equity(SBOE)          | 15.84         | 14.49                               |
| Fixed Income(SBOE)                    | 5.50          | 6.47                                |
| Absolute Return(SBOE)                 | 4.43          | 7.19                                |
| Real Estate(SBOE)                     | 2.93          | 1.26                                |
| Private Equity(SBOE)                  | 4.63          | 4.85                                |
| Risk Parity(SBOE)                     | 2.41          | 16.20                               |
| Real Return(SBOE)                     | 3.33          | 2.85                                |
| Emerging Market Debt(SBOE)            | 1.67          | 1.55                                |
| Liquid Short-Term Fixed Income(SBOE)  | 2.78          | 3.40                                |
| Liquid Transition Cash Reserves(SBOE) | 1.62          | 1.26                                |
| Liquid Combined(SBOE)                 | 2.35          | 2.04                                |
| PSF(SLB)                              | -12.27        | N/A                                 |

<sup>1</sup> Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2020.

<sup>2</sup> Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2020.

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.

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 directly 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 Guarantee 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 Guarantee 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 Guarantee Program.

**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.

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/](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](http://www.emma.msrb.org), and the continuing disclosure filings of the TEA with respect to the PSF can be found at <https://emma.msrb.org/IssueView/Details/ER355077> or by searching for "Texas Permanent School Fund Bond Guarantee Program" on EMMA.

### **Annual Reports**

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

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

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

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

### **Event Notices**

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

liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA 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](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

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

## **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

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

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

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

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

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

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Finance System was "undeniably imperfect". While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued

bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

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

#### **Overview**

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

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

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

#### **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, second and third special session. The Third Special Session commenced on September 20, 2021 and will conclude on October 18, 2021. The third special session agenda includes the provision for strategies for public school education during the COVID-19 pandemic and appropriations from the American Rescue Plan Act of 2021 (ARPA). During such special sessions, 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 Third 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**

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 programmatic 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 were required to 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 to generate local revenues in excess of the school district’s Tier One total state & local entitlement Tax Rate and whose Copper Pennies generate local funds in excess of the Tier II guarantee as previously discussed (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 designated as an “excess local revenue” Chapter 49 school district by TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2020-21 school year, for the purpose of implementing permitted wealth equalization options.

A district’s “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 districts, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts” herein.

## **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 Collin 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. 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 presentation 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"). The 87<sup>th</sup> Texas Legislature did not vote to extend this program, which now is scheduled to expire by its terms, effective December 31, 2022.

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

## **District and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

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

for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

### **District’s Rights in the Event of Tax Delinquencies**

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

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

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

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

## **TAX RATE LIMITATIONS**

### **M&O Tax Rate Limitations**

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters. 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 March 29, 1973 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

HB3 established the following maximum M&O tax rate per \$100 of taxable value that may be adopted by independent school districts, such as the District, for the 2019 and subsequent tax years:

The maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district’s MCR. The District’s MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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

### **I&S Tax Rate Limitations**

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

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

### **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 the County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the County.

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

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

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

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

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

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

The District does grant a \$4,000 additional local option exemption for those 65 years of age and older. The District does not grant the local option exemption of up to 20% of the market value of residence homesteads.

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

## EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended June 30, 2020, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "Note 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").

The District generally does not offer any additional post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45.

During the year ended June 30, 2020, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$225 per month to the cost of each eligible employee to the Plan and employees, at their option, authorized payroll withholdings to pay the remaining balance of premiums for dependents. See "Note 13 – Health Care Coverage" 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 Moody's Investors Service, Inc. ("Moody's") and "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 ratings, including the Bonds, are "Aa2" by Moody's and "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 ratings may be obtained from the company furnishing the ratings. The ratings reflect only the view of such organization and the District makes no representation as to the appropriateness of any rating. There is no assurance that any rating will continue for any given period of time one or both of such ratings will not be revised downward or withdrawn entirely by the rating company, if in the judgment of such company the circumstances so warrant. Any such downward revision or withdrawal of one or more ratings, may have an adverse effect on the market price or 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 approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel represents the Financial Advisor and purchasers of school district bonds from time to time in matters unrelated to the issuance of the Bonds, but Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds.

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

## TAX MATTERS

### Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and the verification report 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 is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the facilities financed with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Issuer 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 Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

### **Collateral Federal Income Tax Consequences**

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

### **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.

### **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 IRS. 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.

### **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.

## **INVESTMENT POLICIES**

### **Investments**

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

### **Legal Investments**

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor, or the National Credit Union Share Insurance Fund or its successor, (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3, (9) certificates of deposit and share certificates (i) that are issued by an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the District through (i) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law or (ii) a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker of depository institution selected by the District arranges for the deposit of 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; (d) the District appoints the depository institution selected under (a) above, an entity described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the investing entity with respect to the certificates of deposit, (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer or a financial institution doing business in the State, (11) certain bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (12) commercial paper with the remaining term of 365 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange

Commission provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of the bond proceeds invested under such contract, other than the prohibited obligations described in the succeeding paragraph.

Entities such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described by clauses (1) through (8) above, (b) irrevocable letters of credit issued by a bank that is organized and existing under the laws of the United States or any other state and is continuously rated by at least one 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) and (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003, or a financial institution doing business in the State; and (iv) 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 State Securities Board to provide such services.

### **Investment Policies**

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

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 June 30, 2021, the District had approximately \$23,972,923 (unaudited) in government investment pools that generally have the characteristics of a money market mutual fund. 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 United States Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

## **FINANCIAL ADVISOR**

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

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

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

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

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

## **CONTINUING DISCLOSURE OF INFORMATION**

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

### **Annual Reports**

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

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

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year, and the Financial Statements must be provided by June 30 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, any event described in clause (12) of 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](http://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, (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 Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of the 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.

## **FORWARD-LOOKING STATEMENTS**

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the

District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

#### WINNING BIDDER

On October 6, 2021 the Bonds were awarded to an investment bank or group of investment banks managed by \_\_\_\_\_ (the "Purchaser"). The initial reoffering yields for the Bonds were supplied to the District by the Purchaser. The initial reoffering yields shown on page ii hereof will produce compensation to the Purchaser of approximately \$\_\_\_\_\_.

#### VERIFICATION OF MATHEMATICAL COMPUTATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Defeasance Securities, to pay, when due or upon early redemption, the principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel.

#### CERTIFICATION OF THE OFFICIAL STATEMENT AND NO LITIGATION

At the time of payment for and delivery of the Initial Bond, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the District, since June 30, 2020, the date of the last financial statements of the District appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

#### CONCLUDING STATEMENT

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

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

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

/s/

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Designated Financial Official

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Schedule I - Schedule of Refunded Bonds\*

Unlimited Tax School Building Bonds, Series 2012

| Maturities Being Redeemed | Original CUSIP | Reoffering Yield | Principal       |                 | Remaining        |           | Maturity Value   |          | Call Date           |
|---------------------------|----------------|------------------|-----------------|-----------------|------------------|-----------|------------------|----------|---------------------|
|                           |                |                  | Outstanding     | Refunded        | Outstanding      | Remaining | Outstanding      | Refunded |                     |
| 2/15/2032                 | 547160NF4      | 4.330%           | \$ 275,254.20   | \$ 275,254.20   | \$ 780,000.00    | \$ -      | 780,000.00       | -        | February 15, 2022 @ |
| 2/15/2033                 | 547160NG2      | 4.390%           | 259,485.50      | 259,485.50      | 775,000.00       | -         | 775,000.00       | -        | February 15, 2022 @ |
| 2/15/2034                 | 547160NH0      | 4.460%           | 246,194.25      | 246,194.25      | 775,000.00       | -         | 775,000.00       | -        | February 15, 2022 @ |
| 2/15/2035                 | 547160NJ6      | 4.520%           | 232,070.30      | 232,070.30      | 770,000.00       | -         | 770,000.00       | -        | February 15, 2022 @ |
| 2/15/2036                 | 547160NK3      | 4.580%           | 833,544.25      | 833,544.25      | 2,915,000.00     | -         | 2,915,000.00     | -        | February 15, 2022 @ |
| 2/15/2037                 | 547160NL1      | 4.640%           | 792,225.20      | 792,225.20      | 2,920,000.00     | -         | 2,920,000.00     | -        | February 15, 2022 @ |
| 2/15/2038                 | 547160NM9      | 4.650%           | 750,350.15      | 750,350.15      | 2,915,000.00     | -         | 2,915,000.00     | -        | February 15, 2022 @ |
| 2/15/2039                 | 547160NN7      | 4.660%           | 1,144,170.70    | 1,144,170.70    | 4,685,000.00     | -         | 4,685,000.00     | -        | February 15, 2022 @ |
| 2/15/2040                 | 547160NP2      | 4.670%           | 614,031.50      | 614,031.50      | 2,650,000.00     | -         | 2,650,000.00     | -        | February 15, 2022 @ |
|                           |                |                  | \$ 5,147,326.05 | \$ 5,147,326.05 | \$ 19,185,000.00 | \$ -      | \$ 19,185,000.00 | \$ -     |                     |

  

| Maturities Being Redeemed | Original CUSIP | Principal Amount Outstanding | Interest Rate | Principal Amount Being Refunded | Call Date           | Principal Amount Unrefunded |
|---------------------------|----------------|------------------------------|---------------|---------------------------------|---------------------|-----------------------------|
| 2/15/2039                 |                | \$ 2,000,000.00              | 4.000%        | \$ 2,000,000.00 <sup>(1)</sup>  | February 15, 2022 @ | -                           |
| 2/15/2040                 |                | 4,155,000.00                 | 4.000%        | 4,155,000.00 <sup>(1)</sup>     | February 15, 2022 @ | -                           |
| 2/15/2041                 |                | 6,985,000.00                 | 4.000%        | 6,985,000.00 <sup>(1)</sup>     | February 15, 2022 @ | -                           |
| 2/15/2042                 | 547160ND9      | 7,275,000.00                 | 4.000%        | 7,275,000.00 <sup>(1)</sup>     | February 15, 2022 @ | -                           |
|                           |                | \$ 20,415,000.00             |               | \$ 20,415,000.00                |                     | \$ -                        |

<sup>(1)</sup> Represents a mandatory sinking fund redemption of the term bond outstanding in the principal amount of \$20,415,000 that matures February 15, 2042.

\*Preliminary, subject to change.

**LOVEJOY INDEPENDENT SCHOOL DISTRICT**  
**Unlimited Tax School Building and Refunding Bonds, Series 2021**

**Schedule II - Schedule of Accreted Values of Premium Capital Appreciation Bonds ("CABs")**  
**(Per \$5,000 Maturity Value)**

CABs Delivery Date: November 18, 2021

|             | <b>Accreted<br/>Value of<br/>2/15/2022<br/>Maturity</b> |
|-------------|---|
| <u>Date</u> | <u>@</u> <u>%</u>                                       |
| 11/18/21    | \$ -  |
| 02/15/22    | -   |

**APPENDIX A**  
**FINANCIAL INFORMATION OF THE DISTRICT**

# LOVEJOY INDEPENDENT SCHOOL DISTRICT

## Financial Information

### ASSESSED VALUATION <sup>(1)</sup>

|   |                |                  |
|---|----------------|------------------|
| 2021/22 Total Valuation.....                  |                | \$ 3,620,478,498 |
| Less Exemptions & Deductions <sup>(2)</sup> : |                |                  |
| State Homestead Exemption                     | \$ 115,976,033 |                  |
| State Over-65 Exemption                       | 19,780,060     |                  |
| Disabled Exemption                            | 14,845,613     |                  |
| Local Optional Over-65 Exemption              | 7,031,920      |                  |
| Veterans Exemption                            | 915,000        |                  |
| Surviving Spouse Disabled Veteran Exemption   | 1,772,678      |                  |
| Surviving Spouse Deceased Service Member      | 356,071        |                  |
| Solar / Wind Exemption Loss                   | 116,853        |                  |
| Productivity Loss                             | 89,087,203     |                  |
| Homestead Cap Loss                            | 33,677,285     |                  |
|   | \$ 283,558,716 |                  |
| 2021/22 Certified Net Taxable Valuation ..... |                | \$ 3,336,919,782 |

(1) Source: Collin Central Appraisal District Certified Values as of July 2021. 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 \$216,135,144 for 2020/21.

### VOTED GENERAL OBLIGATION DEBT

|  |  |                |
|--|--|----------------|
| Unlimited Tax Bonds Outstanding <sup>(1)</sup>                             |  | \$ 148,362,326 |
| Less: The Refunded Bonds <sup>(2)</sup>                                    |  | (25,562,326)   |
| Plus: The School Building and Refunding Bonds <sup>(2)</sup>               |  | 30,560,000     |
| Total Unlimited Tax Bonds <sup>(1)(2)</sup>                                |  | 153,360,000    |
| Less: Interest & Sinking Fund Balance (As of June 30, 2021) <sup>(3)</sup> |  | (5,524,546)    |
| Net General Obligation Debt  |  | \$ 147,835,454 |

Ratio of Net G.O. Debt to Net Taxable Valuation <sup>(4)</sup> 4.43%

|   |  |           |
|---|--|-----------|
| 2021 Population Estimate <sup>(5)</sup> |  | 20,781    |
| Per Capita Net Taxable Valuation        |  | \$160,576 |
| Per Capita Net G.O. Debt                |  | \$7,114   |

(1) Excludes interest accreted on outstanding capital appreciation bonds.  
 (2) Preliminary, subject to change.  
 (3) Source: Lovejoy ISD Expected Ending I&S Fund Balance.  
 (4) 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 June 30, 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 <sup>(4)</sup> |                        |
|-------------|---------------------------------|--------------------------|------------------------------|------------------------|
|             | Taxable Valuation               | Tax Rate                 | Current <sup>(5)</sup>       | Total <sup>(5)</sup>   |
| 2006/07     | \$ 1,177,418,301 <sup>(1)</sup> | \$ 1.6934 <sup>(6)</sup> | 99.26%                       | 100.79%                |
| 2007/08     | 1,355,273,019 <sup>(1)</sup>    | 1.4763 <sup>(6)</sup>    | 98.78%                       | 99.33%                 |
| 2008/09     | 1,482,804,214 <sup>(1)</sup>    | 1.5150                   | 98.67%                       | 99.54%                 |
| 2009/10     | 1,534,019,182 <sup>(1)</sup>    | 1.5350                   | 98.23%                       | 100.38%                |
| 2010/11     | 1,546,929,101 <sup>(1)</sup>    | 1.5350                   | 98.22%                       | 100.06%                |
| 2011/12     | 1,584,467,506 <sup>(1)</sup>    | 1.5350                   | 98.47%                       | 100.10%                |
| 2012/13     | 1,633,419,633 <sup>(1)</sup>    | 1.5350                   | 98.56%                       | 100.11%                |
| 2013/14     | 1,732,217,768 <sup>(1)</sup>    | 1.5350                   | 98.65%                       | 99.31%                 |
| 2014/15     | 1,929,991,667 <sup>(1)</sup>    | 1.5600                   | 98.61%                       | 100.03%                |
| 2015/16     | 2,098,417,140 <sup>(1)(3)</sup> | 1.5600                   | 98.30%                       | 99.54%                 |
| 2016/17     | 2,341,056,544 <sup>(1)(3)</sup> | 1.6700                   | 98.62%                       | 100.19%                |
| 2017/18     | 2,591,641,334 <sup>(1)(3)</sup> | 1.6700                   | 98.68%                       | 99.34%                 |
| 2018/19     | 2,831,336,784 <sup>(1)(3)</sup> | 1.6700                   | 98.76%                       | 100.49%                |
| 2019/20     | 3,025,055,840 <sup>(1)(3)</sup> | 1.5684 <sup>(7)</sup>    | 98.61%                       | 99.69%                 |
| 2020/21     | 3,101,793,796 <sup>(1)(3)</sup> | 1.5547                   | 99.07% <sup>(8)</sup>        | 100.00% <sup>(8)</sup> |
| 2021/22     | 3,336,919,782 <sup>(2)(3)</sup> | 1.5050                   |                              |                        |

(1) Source: Comptroller of Public Accounts - Property Tax Division.  
 (2) Source: Collin Central Appraisal District Certified Values 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: Lovejoy ISD Audited Financial Statements.  
 (5) Excludes penalties and interest.  
 (6) The decline in the District's Maintenance & Operation Tax from the 2006/07 fiscal year to the 2007/08 fiscal year is a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.  
 (7) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"- Local Funding for School Districts" in the Official Statement.  
 (8) Lovejoy ISD Estimated Collection Percentages.

**TAX RATE DISTRIBUTION <sup>(1)</sup>**

|                          | 2017/18         | 2018/19         | 2019/20 <sup>(2)</sup> | 2020/21         | 2021/22         |
|--------------------------|-----------------|-----------------|------------------------|-----------------|-----------------|
| Maintenance & Operations | \$1.1700        | \$1.1700        | \$1.0684               | \$1.0547        | \$1.0050        |
| Debt Service             | \$0.5000        | \$0.5000        | \$0.5000               | \$0.5000        | \$0.5000        |
| <b>Total Tax Rate</b>    | <b>\$1.6700</b> | <b>\$1.6700</b> | <b>\$1.5684</b>        | <b>\$1.5547</b> | <b>\$1.5050</b> |

(1) On September 29, 2009, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed \$1.06. A second tax rate election was held on May 21, 2016, at which the District voters approved a maintenance and operations tax not to exceed \$1.17.

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

**VALUATION AND FUNDED DEBT HISTORY**

| Fiscal Year | Net Taxable Valuation        | Bond Debt Outstanding <sup>(1) (2)</sup> | Ratio Debt to A.V. <sup>(3)</sup> |
|-------------|------------------------------|--|-----------------------------------|
| 2006/07     | \$ 1,177,418,301             | \$ 68,799,996                            | 5.84%                             |
| 2007/08     | 1,355,273,019                | 111,171,900                              | 8.20%                             |
| 2008/09     | 1,482,804,214                | 109,361,900                              | 7.38%                             |
| 2009/10     | 1,534,019,182                | 114,415,234                              | 7.46%                             |
| 2010/11     | 1,546,929,101                | 113,060,238                              | 7.31%                             |
| 2011/12     | 1,584,467,506                | 137,105,471                              | 8.65%                             |
| 2012/13     | 1,633,419,633                | 135,435,471                              | 8.29%                             |
| 2013/14     | 1,732,217,768                | 147,060,471                              | 8.49%                             |
| 2014/15     | 1,929,991,667                | 161,697,131                              | 8.38%                             |
| 2015/16     | 2,098,417,140                | 157,463,766                              | 7.50%                             |
| 2016/17     | 2,341,056,544                | 166,095,234                              | 7.09%                             |
| 2017/18     | 2,591,641,334                | 162,875,234                              | 6.28%                             |
| 2018/19     | 2,831,336,784                | 166,105,234                              | 5.87%                             |
| 2019/20     | 3,025,055,840                | 157,942,326                              | 5.22%                             |
| 2020/21     | 3,101,793,796                | 152,882,326                              | 4.93%                             |
| 2021/22     | 3,336,919,782 <sup>(4)</sup> | 146,580,000 <sup>(5)</sup>               | 4.39%                             |

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

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

(3) 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.

(4) Source: Collin Central Appraisal District Certified Values as of July 2021.

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

**ESTIMATED OVERLAPPING DEBT STATEMENT**

| Taxing Body  | Amount        | Percent Overlapping | Amount Overlapping    |
|--|---------------|---------------------|-----------------------|
| Allen, City of   | \$ 88,419,704 | 2.18%               | \$ 1,927,550          |
| Collin County  | 526,975,000   | 2.11%               | 11,119,173            |
| Collin County Community College District                                   | 514,470,000   | 2.11%               | 10,855,317            |
| Fairview, Town of  | 20,239,022    | 64.85%              | 13,125,006            |
| Lucas, City of   | 21,515,000    | 77.02%              | 16,570,853            |
| McKinney, City of  | 301,450,000   | 0.38%               | 1,145,510             |
| Wylie, City of   | 62,896,655    | 0.01%               | 6,290                 |
| <b>Total Overlapping Debt <sup>(1)</sup></b>                               |               |                     | <b>\$ 54,749,697</b>  |
| Lovejoy Independent School District <sup>(2) (3)</sup>                     |               |                     | <b>147,835,454</b>    |
| <b>Total Direct &amp; Overlapping Debt</b>                                 |               |                     | <b>\$ 202,585,151</b> |
| <b>Ratio of Net Direct &amp; Overlapping Debt to Net Taxable Valuation</b> |               | <b>6.07%</b>        |                       |
| <b>Per Capita Direct &amp; Overlapping Debt</b>                            |               | <b>\$9,749</b>      |                       |

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

(2) Includes the Bonds and excludes the Refunded Bonds.

(3) Preliminary, subject to change.

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



**PRINCIPAL TAXPAYERS****2021/22 Top Ten Taxpayers <sup>(1)</sup>**

| <u>Name of Taxpayer</u>       | <u>Type of Business</u> | <u>Taxable Value</u> | <u>% of Net Valuation</u> |
|-------------------------------|-------------------------|----------------------|---------------------------|
| Grayson Collin Electric Co-Op | Electric Utility        | \$ 8,400,000         | 0.25%                     |
| Texas Henderson LLC           | Developer               | 5,482,210            | 0.16%                     |
| Brandon Carr                  | Personal                | 3,755,333            | 0.11%                     |
| Brandon & Heather Larsen      | Personal                | 3,720,113            | 0.11%                     |
| Michael Crabtree              | Personal                | 3,298,005            | 0.10%                     |
| Chicane Revocable Trust       | Personal                | 3,182,168            | 0.10%                     |
| Merlin & Misty Bise           | Personal                | 2,910,425            | 0.09%                     |
| Oncor Electric Delivery Co.   | Electric Utility        | 2,905,350            | 0.09%                     |
| CKR Stacy LLC                 | Commercial              | 2,735,371            | 0.08%                     |
| Matthew L Huhnke              | Personal                | 2,731,792            | 0.08%                     |
|                               |                         | <u>\$ 39,120,767</u> | <u>1.17%</u>              |

**2020/21 Top Ten Taxpayers <sup>(2)</sup>**

| <u>Name of Taxpayer</u>        | <u>Type of Business</u> | <u>Taxable Value</u> | <u>% of Net Valuation</u> |
|--------------------------------|-------------------------|----------------------|---------------------------|
| Grayson Collin Electric Co-Op  | Electric Utility        | \$ 8,239,253         | 0.27%                     |
| Liberty Bankers Life Insurance | Financial/Banking       | 5,892,864            | 0.19%                     |
| Texas Henderson LLC            | Developer               | 5,497,270            | 0.18%                     |
| Brockdale Phase 3 LLC          | Developer               | 4,845,497            | 0.16%                     |
| Brandon & Heather Larsen       | Personal                | 3,681,684            | 0.12%                     |
| Brandon Carr                   | Personal                | 3,461,149            | 0.11%                     |
| Michael Crabtree               | Personal                | 3,166,714            | 0.10%                     |
| Chicane Revocable Trust        | Personal                | 3,132,757            | 0.10%                     |
| Brandy Carll                   | Personal                | 2,900,296            | 0.09%                     |
| CKR Stacy LLC                  | Commercial              | 2,735,371            | 0.09%                     |
|                                |                         | <u>\$ 43,552,855</u> | <u>1.40%</u>              |

**2019/20 Top Ten Taxpayers <sup>(2)</sup>**

| <u>Name of Taxpayer</u>                  | <u>Type of Business</u> | <u>Taxable Value</u> | <u>% of Net Valuation</u> |
|--|-------------------------|----------------------|---------------------------|
| Brockdale Phase 3 LLC                    | Developer               | \$ 7,973,568         | 0.26%                     |
| Grayson Collin Electric Co-Op            | Electric Utility        | 7,705,412            | 0.25%                     |
| Liberty Bankers Life Insurance           | Financial/Banking       | 7,259,958            | 0.24%                     |
| Texas Henderson LLC                      | Developer               | 3,984,045            | 0.13%                     |
| CBBS Land Holdings LLC                   | Developer               | 3,681,416            | 0.12%                     |
| Brandon & Heather Larsen                 | Personal                | 3,415,802            | 0.11%                     |
| Kendall Carll                            | Personal                | 3,030,769            | 0.10%                     |
| Mehta Sacheen H & Sangini S Living Trust | Personal                | 3,013,154            | 0.10%                     |
| Karl Williams                            | Personal                | 2,957,981            | 0.10%                     |
| Our Country Homes Inc.                   | Home Builder            | 2,947,110            | 0.10%                     |
|  |                         | <u>\$ 45,969,215</u> | <u>1.52%</u>              |

(1) Source: Collin Central Appraisal District.

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

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

| <u>Category</u>                            | <u>2021/22</u> <sup>(1)</sup> | <u>% of Total</u> | <u>2020/21</u> <sup>(2)</sup> | <u>% of Total</u> | <u>2019/20</u> <sup>(2)</sup> | <u>% of Total</u> |
|--|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|
| Real, Residential, Single-Family           | \$ 3,308,939,618              | 91.40%            | \$ 3,040,830,952              | 90.54%            | \$ 2,958,805,900              | 89.93%            |
| Real, Residential, Multi-Family            | 34,511,596                    | 0.95%             | 33,604,893                    | 1.00%             | 33,296,513                    | 1.01%             |
| Real, Vacant Lots/Tracts                   | 35,804,399                    | 0.99%             | 24,980,938                    | 0.74%             | 27,631,814                    | 0.84%             |
| Real, Qualified Land & Improvements        | 90,045,590                    | 2.49%             | 84,655,185                    | 2.52%             | 83,697,259                    | 2.54%             |
| Real, Non-Qualified Land & Improvements    | 80,753,631                    | 2.23%             | 89,487,541                    | 2.66%             | 84,868,699                    | 2.58%             |
| Real, Commercial & Industrial              | 21,393,828                    | 0.59%             | 20,662,754                    | 0.62%             | 15,406,743                    | 0.47%             |
| Oil & Gas                                  | -                             | 0.00%             | -                             | 0.00%             | -                             | 0.00%             |
| Utilities                                  | 15,567,480                    | 0.43%             | 15,504,273                    | 0.46%             | 14,558,374                    | 0.44%             |
| Tangible Personal, Commercial              | 6,512,072                     | 0.18%             | 7,825,748                     | 0.23%             | 8,479,197                     | 0.26%             |
| Tangible Personal, Industrial              | 251,243                       | 0.01%             | 154,173                       | 0.00%             | 173,975                       | 0.01%             |
| Tangible Personal, Mobile Homes & Other    | 247,050                       | 0.01%             | 208,087                       | 0.01%             | 157,760                       | 0.00%             |
| Tangible Personal, Residential Inventory   | <u>26,451,991</u>             | <u>0.73%</u>      | <u>40,503,308</u>             | <u>1.21%</u>      | <u>62,929,230</u>             | <u>1.91%</u>      |
| <b>Total Appraised Value</b>               | <b>\$ 3,620,478,498</b>       | <b>100.00%</b>    | <b>\$ 3,358,417,852</b>       | <b>100.00%</b>    | <b>\$ 3,290,005,464</b>       | <b>100.00%</b>    |
| <b>Less:</b>                               |                               |                   |                               |                   |                               |                   |
| Homestead Cap Adjustment                   | \$ 33,677,285                 |                   | \$ 15,238,074                 |                   | \$ 27,261,673                 |                   |
| Productivity Loss                          | 89,087,203                    |                   | 83,705,188                    |                   | 82,731,623                    |                   |
| Exemptions <sup>(3)</sup>                  | <u>160,794,228</u>            |                   | <u>157,680,794</u>            |                   | <u>154,956,328</u>            |                   |
| Total Exemptions/Deductions <sup>(4)</sup> | <u>\$ 283,558,716</u>         |                   | <u>\$ 256,624,056</u>         |                   | <u>\$ 264,949,624</u>         |                   |
| <b>Net Taxable Assessed Valuation</b>      | <b>\$ 3,336,919,782</b>       |                   | <b>\$ 3,101,793,796</b>       |                   | <b>\$ 3,025,055,840</b>       |                   |

| <u>Category</u>                            | <u>2018/19</u> <sup>(2)</sup> | <u>% of Total</u> | <u>2017/18</u> <sup>(2)</sup> | <u>% of Total</u> | <u>2016/17</u> <sup>(2)</sup> | <u>% of Total</u> |
|--|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|
| Real, Residential, Single-Family           | \$ 2,783,388,936              | 89.92%            | \$ 2,567,503,113              | 89.22%            | \$ 2,322,704,963              | 89.36%            |
| Real, Residential, Multi-Family            | 33,803,891                    | 1.09%             | 30,348,739                    | 1.05%             | 27,866,266                    | 1.07%             |
| Real, Vacant Lots/Tracts                   | 30,583,737                    | 0.99%             | 30,010,419                    | 1.04%             | 26,941,544                    | 1.04%             |
| Real, Qualified Land & Improvements        | 79,967,435                    | 2.58%             | 80,447,252                    | 2.80%             | 74,364,953                    | 2.86%             |
| Real, Non-Qualified Land & Improvements    | 80,688,945                    | 2.61%             | 81,916,054                    | 2.85%             | 72,314,674                    | 2.78%             |
| Real, Commercial & Industrial              | 12,588,384                    | 0.41%             | 10,579,881                    | 0.37%             | 10,318,787                    | 0.40%             |
| Oil & Gas                                  | -                             | 0.00%             | -                             | 0.00%             | -                             | 0.00%             |
| Utilities                                  | 13,736,154                    | 0.44%             | 10,270,524                    | 0.36%             | 7,245,247                     | 0.28%             |
| Tangible Personal, Commercial              | 8,376,181                     | 0.27%             | 7,237,872                     | 0.25%             | 6,130,533                     | 0.24%             |
| Tangible Personal, Industrial              | 196,283                       | 0.01%             | 212,757                       | 0.01%             | 228,332                       | 0.01%             |
| Tangible Personal, Mobile Homes & Other    | 104,827                       | 0.00%             | 162,339                       | 0.01%             | 103,018                       | 0.00%             |
| Tangible Personal, Residential Inventory   | <u>51,810,023</u>             | <u>1.67%</u>      | <u>59,010,013</u>             | <u>2.05%</u>      | <u>51,146,304</u>             | <u>1.97%</u>      |
| <b>Total Appraised Value</b>               | <b>\$ 3,095,244,796</b>       | <b>100.00%</b>    | <b>\$ 2,877,698,963</b>       | <b>100.00%</b>    | <b>\$ 2,599,364,621</b>       | <b>100.00%</b>    |
| <b>Less:</b>                               |                               |                   |                               |                   |                               |                   |
| Homestead Cap Adjustment                   | \$ 35,723,163                 |                   | \$ 63,620,871                 |                   | \$ 45,135,630                 |                   |
| Productivity Loss                          | 78,963,042                    |                   | 79,403,632                    |                   | 73,396,649                    |                   |
| Exemptions <sup>(3)</sup>                  | <u>149,221,807</u>            |                   | <u>143,033,126</u>            |                   | <u>139,775,798</u>            |                   |
| Total Exemptions/Deductions <sup>(4)</sup> | <u>\$ 263,908,012</u>         |                   | <u>\$ 286,057,629</u>         |                   | <u>\$ 258,308,077</u>         |                   |
| <b>Net Taxable Assessed Valuation</b>      | <b>\$ 2,831,336,784</b>       |                   | <b>\$ 2,591,641,334</b>       |                   | <b>\$ 2,341,056,544</b>       |                   |

(1) Source: Collin Central Appraisal District.

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

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

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.

**PRINCIPAL REPAYMENT SCHEDULE <sup>(1)</sup>**

| Fiscal Year<br>Ending 8/31 | Outstanding<br>Bonds <sup>(2)</sup> | Less:<br>Refunded<br>Bonds <sup>(2) (3)</sup> | Plus:<br>The<br>Bonds <sup>(2) (3)</sup> | Total <sup>(1) (2) (3)</sup> | Bonds<br>Unpaid<br>At Year End | Percent of<br>Principal<br>Retired |
|----------------------------|-------------------------------------|---|--|------------------------------|--------------------------------|------------------------------------|
| 2022                       | \$ 4,510,000.00                     | \$ -  | \$ 2,270,000.00                          | \$ 6,780,000.00              | \$ 146,580,000.00              | 4.42%                              |
| 2023                       | 4,705,000.00                        | -   | 5,015,000.00                             | 9,720,000.00                 | 136,860,000.00                 | 10.76%                             |
| 2024                       | 5,160,000.00                        | -   | 2,790,000.00                             | 7,950,000.00                 | 128,910,000.00                 | 15.94%                             |
| 2025                       | 5,375,000.00                        | -   | 775,000.00                               | 6,150,000.00                 | 122,760,000.00                 | 19.95%                             |
| 2026                       | 5,595,000.00                        | -   | 795,000.00                               | 6,390,000.00                 | 116,370,000.00                 | 24.12%                             |
| 2027                       | 5,805,000.00                        | -   | 825,000.00                               | 6,630,000.00                 | 109,740,000.00                 | 28.44%                             |
| 2028                       | 6,010,000.00                        | -   | 855,000.00                               | 6,865,000.00                 | 102,875,000.00                 | 32.92%                             |
| 2029                       | 6,865,000.00                        | -   | 220,000.00                               | 7,085,000.00                 | 95,790,000.00                  | 37.54%                             |
| 2030                       | 7,085,000.00                        | -   | 230,000.00                               | 7,315,000.00                 | 88,475,000.00                  | 42.31%                             |
| 2031                       | 7,310,000.00                        | -   | 235,000.00                               | 7,545,000.00                 | 80,930,000.00                  | 47.23%                             |
| 2032                       | 6,610,254.20                        | 275,254.20                                    | 850,000.00                               | 7,185,000.00                 | 73,745,000.00                  | 51.91%                             |
| 2033                       | 7,274,485.50                        | 259,485.50                                    | 475,000.00                               | 7,490,000.00                 | 66,255,000.00                  | 56.80%                             |
| 2034                       | 7,551,194.25                        | 246,194.25                                    | 490,000.00                               | 7,795,000.00                 | 58,460,000.00                  | 61.88%                             |
| 2035                       | 7,802,070.30                        | 232,070.30                                    | 495,000.00                               | 8,065,000.00                 | 50,395,000.00                  | 67.14%                             |
| 2036                       | 6,663,544.25                        | 833,544.25                                    | 2,495,000.00                             | 8,325,000.00                 | 42,070,000.00                  | 72.57%                             |
| 2037                       | 6,817,225.20                        | 792,225.20                                    | 2,575,000.00                             | 8,600,000.00                 | 33,470,000.00                  | 78.18%                             |
| 2038                       | 6,990,350.15                        | 750,350.15                                    | 2,650,000.00                             | 8,890,000.00                 | 24,580,000.00                  | 83.97%                             |
| 2039                       | 5,829,170.70                        | 3,144,170.70                                  | 6,520,000.00                             | 9,205,000.00                 | 15,375,000.00                  | 89.97%                             |
| 2040                       | 7,209,031.50                        | 4,769,031.50                                  |  | 2,440,000.00                 | 12,935,000.00                  | 91.57%                             |
| 2041                       | 9,590,000.00                        | 6,985,000.00                                  |  | 2,605,000.00                 | 10,330,000.00                  | 93.26%                             |
| 2042                       | 9,995,000.00                        | 7,275,000.00                                  |  | 2,720,000.00                 | 7,610,000.00                   | 95.04%                             |
| 2043                       | 2,855,000.00                        |   |  | 2,855,000.00                 | 4,755,000.00                   | 96.90%                             |
| 2044                       | 2,990,000.00                        |   |  | 2,990,000.00                 | 1,765,000.00                   | 98.85%                             |
| 2045                       | <u>1,765,000.00</u>                 |   |  | <u>1,765,000.00</u>          | -                              | 100.00%                            |
| Total                      | <u>\$ 148,362,326.05</u>            | <u>\$ 25,562,326.05</u>                       | <u>\$ 30,560,000.00</u>                  | <u>\$ 153,360,000.00</u>     |                                |                                    |

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) Excludes the accreted value on outstanding capital appreciation bonds.

(3) Preliminary, subject to change.

**DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**

| Fiscal Year<br>Ending 8/31 | Outstanding<br>Debt Service <sup>(2)</sup> | Less:                                       | Plus:                        |                         |                         | Combined<br>Total <sup>(1) (2) (3) (4)</sup> |
|----------------------------|--|---|------------------------------|-------------------------|-------------------------|--|
|                            |  | Refunded<br>Debt Service <sup>(2) (3)</sup> | The Bonds <sup>(2) (3)</sup> |                         |                         |  |
|                            |  |   | Principal                    | Interest                | Total                   |  |
| 2022                       | \$ 9,893,918.78                            | \$ 816,600.00                               | \$ 2,270,000.00              | \$ 4,116,415.83         | \$ 6,386,415.83         | \$ 15,463,734.61                             |
| 2023                       | 9,893,843.78                               | 816,600.00                                  | 5,015,000.00                 | 754,668.75              | 5,769,668.75            | 14,846,912.53                                |
| 2024                       | 10,140,581.28                              | 816,600.00                                  | 2,790,000.00                 | 656,400.00              | 3,446,400.00            | 12,770,381.28                                |
| 2025                       | 10,133,856.28                              | 816,600.00                                  | 775,000.00                   | 602,925.00              | 1,377,925.00            | 10,695,181.28                                |
| 2026                       | 10,134,450.03                              | 816,600.00                                  | 795,000.00                   | 579,375.00              | 1,374,375.00            | 10,692,225.03                                |
| 2027                       | 10,127,446.90                              | 816,600.00                                  | 825,000.00                   | 555,075.00              | 1,380,075.00            | 10,690,921.90                                |
| 2028                       | 10,126,743.77                              | 816,600.00                                  | 855,000.00                   | 529,875.00              | 1,384,875.00            | 10,695,018.77                                |
| 2029                       | 10,775,515.64                              | 816,600.00                                  | 220,000.00                   | 513,750.00              | 733,750.00              | 10,692,665.64                                |
| 2030                       | 10,774,437.51                              | 816,600.00                                  | 230,000.00                   | 507,000.00              | 737,000.00              | 10,694,837.51                                |
| 2031                       | 10,776,762.51                              | 816,600.00                                  | 235,000.00                   | 500,025.00              | 735,025.00              | 10,695,187.51                                |
| 2032                       | 10,333,531.26                              | 1,596,600.00                                | 850,000.00                   | 483,750.00              | 1,333,750.00            | 10,070,681.26                                |
| 2033                       | 10,726,181.26                              | 1,591,600.00                                | 475,000.00                   | 463,875.00              | 938,875.00              | 10,073,456.26                                |
| 2034                       | 10,723,415.63                              | 1,591,600.00                                | 490,000.00                   | 449,400.00              | 939,400.00              | 10,071,215.63                                |
| 2035                       | 10,725,406.25                              | 1,586,600.00                                | 495,000.00                   | 434,625.00              | 929,625.00              | 10,068,431.25                                |
| 2036                       | 10,918,750.00                              | 3,731,600.00                                | 2,495,000.00                 | 389,775.00              | 2,884,775.00            | 10,071,925.00                                |
| 2037                       | 10,917,065.63                              | 3,736,600.00                                | 2,575,000.00                 | 313,725.00              | 2,888,725.00            | 10,069,190.63                                |
| 2038                       | 10,914,909.38                              | 3,731,600.00                                | 2,650,000.00                 | 235,350.00              | 2,885,350.00            | 10,068,659.38                                |
| 2039                       | 10,916,825.00                              | 7,461,600.00                                | 6,520,000.00                 | 97,800.00               | 6,617,800.00            | 10,073,025.00                                |
| 2040                       | 10,544,250.00                              | 7,458,500.00                                | -                            | -                       | -                       | 3,085,750.00                                 |
| 2041                       | 10,546,025.00                              | 7,415,700.00                                | -                            | -                       | -                       | 3,130,325.00                                 |
| 2042                       | 10,544,325.00                              | 7,420,500.00                                | -                            | -                       | -                       | 3,123,825.00                                 |
| 2043                       | 3,131,575.00                               | -   | -                            | -                       | -                       | 3,131,575.00                                 |
| 2044                       | 3,133,100.00                               | -   | -                            | -                       | -                       | 3,133,100.00                                 |
| 2045                       | 1,802,400.00                               | -   | -                            | -                       | -                       | 1,802,400.00                                 |
|                            | <u>\$ 228,655,315.89</u>                   | <u>\$ 55,488,500.00</u>                     | <u>\$ 30,560,000.00</u>      | <u>\$ 12,183,809.58</u> | <u>\$ 42,743,809.58</u> | <u>\$ 215,910,625.47</u>                     |

(1) Debt service for the Bonds is illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends on June 30th.

(2) Includes the accreted value of outstanding capital appreciation bonds.

(3) Preliminary, subject to change.

(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" in the Official Statement.

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

|  |                      |
|--|----------------------|
| Projected Maximum Debt Service Requirement <sup>(1)</sup>  | \$ 15,463,734.61     |
| Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption <sup>(2)</sup> | -                    |
| Projected Net Debt Service Requirement   | \$ 15,463,734.61     |
| <br>\$0.47287 Tax Rate @ 98% Collections Produces  | <br>\$ 15,463,734.61 |
| <br>2021/22 Certified Net Taxable Valuation  | <br>\$ 3,336,919,782 |

(1) Includes the Bonds and excludes the Refunded 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" in the Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2021/22, but will receive additional state aid for the increase in the homestead exemption which took effect in 2015/16.

**AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Series 2021 School Building & Refunding Bonds, the District will have \$9,500,000 (preliminary, subject to change) of authorized but unissued unlimited ad valorem tax bonds from the May 10, 2014 bond election. 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 <sup>(1)</sup>**

|  | Fiscal Year Ended June 30 |                     |                     |                     |                     |
|--|---------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2016                      | 2017                | 2018                | 2019                | 2020                |
| <b>Beginning Fund Balance</b>  | <b>\$ 8,986,091</b>       | <b>\$ 8,386,494</b> | <b>\$ 9,598,825</b> | <b>\$ 9,240,002</b> | <b>\$ 9,276,250</b> |
| <b>Revenues:</b>   |                           |                     |                     |                     |                     |
| Local and Intermediate Sources   | \$22,666,209              | \$27,319,086        | \$29,955,083        | \$33,409,602        | \$31,994,895        |
| State Sources  | 13,833,851                | 13,368,015          | 10,694,529          | 9,307,747           | 10,199,697          |
| Federal Sources & Other  | 136,435                   | 235,829             | 250,608             | 585,211             | 258,648             |
| <b>Total Revenues</b>  | <b>\$36,636,495</b>       | <b>\$40,922,930</b> | <b>\$40,900,220</b> | <b>\$43,302,560</b> | <b>\$42,453,240</b> |
| <b>Expenditures:</b>   |                           |                     |                     |                     |                     |
| Instruction  | \$21,212,062              | \$22,374,154        | \$23,071,102        | \$23,296,285        | \$23,260,340        |
| Instructional Resources & Media Services   | 656,068                   | 728,935             | 749,194             | 761,630             | 764,095             |
| Curriculum & Instructional Staff Development   | 1,362,004                 | 1,660,454           | 1,457,643           | 1,714,372           | 1,499,471           |
| Instructional Leadership   | 488,362                   | 499,907             | 439,038             | 447,347             | 515,529             |
| School Leadership  | 2,422,946                 | 2,413,254           | 2,643,358           | 2,739,974           | 2,788,226           |
| Guidance, Counseling & Evaluation Services   | 1,398,494                 | 1,485,482           | 1,674,613           | 1,740,050           | 1,526,551           |
| Health Services  | 409,952                   | 429,925             | 420,885             | 430,987             | 455,665             |
| Student (Pupil) Transportation   | 976,578                   | 1,038,194           | 1,259,714           | 1,311,204           | 1,473,031           |
| Cocurricular/Extracurricular Activities  | 1,478,175                 | 1,593,624           | 1,770,152           | 1,842,175           | 1,651,806           |
| General Administration   | 1,614,843                 | 1,899,640           | 1,773,990           | 1,793,635           | 2,284,935           |
| Plant Maintenance and Operations   | 3,752,876                 | 3,890,197           | 3,885,154           | 4,167,177           | 4,072,665           |
| Security and Monitoring Services   | 102,124                   | 103,710             | 127,095             | 760,884             | 581,476             |
| Data Processing Services   | 689,038                   | 664,153             | 651,140             | 727,900             | 669,263             |
| Community Services   | 56,594                    | 53,640              | 269,896             | 239,094             | 184,703             |
| Payments to Instructional Services Between Schools                                       | -                         | 608,024             | 766,070             | 992,443             | 159,239             |
| Payments to Shared Service Arrangements  | 13,270                    | 14,470              | 14,477              | 14,800              | 16,600              |
| Other Intergovernmental Charges  | 195,330                   | 249,585             | 285,522             | 283,060             | 298,385             |
| <b>Total Expenditures</b>  | <b>\$36,828,716</b>       | <b>\$39,707,348</b> | <b>\$41,259,043</b> | <b>\$43,263,017</b> | <b>\$42,201,980</b> |
| Excess (Deficiency) of Revenues<br>over Expenditures                                     | \$ (192,221)              | \$ 1,215,582        | \$ (358,823)        | \$ 39,543           | \$ 251,260          |
| <b>Other Resources and (Uses):</b>   |                           |                     |                     |                     |                     |
| Sale of Real or Personal Property  | \$ 1,199,825              | \$ -                | \$ -                | \$ -                | \$ -                |
| Transfer In  | -                         | -                   | -                   | -                   | 160,893             |
| Transfer Out   | (1,607,201)               | (3,251)             | -                   | (3,295)             | (110,925)           |
| <b>Total Other Resources (Uses)</b>  | <b>\$ (407,376)</b>       | <b>\$ (3,251)</b>   | <b>\$ -</b>         | <b>\$ (3,295)</b>   | <b>\$ 49,968</b>    |
| Excess (Deficiency) of<br>Revenues and Other Sources<br>over Expenditures and Other Uses | \$ (599,597)              | \$ 1,212,331        | \$ (358,823)        | \$ 36,248           | \$ 301,228          |
| Prior Period Adjustment  | \$ -                      | \$ -                | \$ -                | \$ -                | \$ (241,494)        |
| <b>Ending Fund Balance <sup>(2)</sup></b>  | <b>\$ 8,386,494</b>       | <b>\$ 9,598,825</b> | <b>\$ 9,240,002</b> | <b>\$ 9,276,250</b> | <b>\$ 9,335,984</b> |

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budget 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" in the Official Statement.

(2) The District is expecting the 2021 Ending General Fund Balance to be approximately \$6,121,084.

**CHANGE IN NET ASSETS <sup>(1)</sup>**

|   | Fiscal Year Ended June 30 |                        |                                       |                        |                        |
|---|---------------------------|------------------------|---------------------------------------|------------------------|------------------------|
|   | 2016                      | 2017                   | 2018                                  | 2019                   | 2020                   |
| <b>Revenues:</b>                                  |                           |                        |                                       |                        |                        |
| <b>Program Revenues:</b>                          |                           |                        |                                       |                        |                        |
| Charges for Services                              | \$ 5,315,400              | \$ 3,785,277           | \$ 3,571,149                          | \$ 4,291,551           | \$ 3,778,134           |
| Operating Grants and Contributions                | 3,566,169                 | 6,582,679              | (1,114,233)                           | 7,911,698              | 7,869,392              |
| Capital Grants and Contributions                  | -                         | -                      | -                                     | 330,000                | 369,000                |
| <b>General Revenues:</b>                          |                           |                        |                                       |                        |                        |
| Property Taxes Levied for General Purposes        | 21,574,376                | 25,359,896             | 28,139,485                            | 30,636,164             | 29,910,329             |
| Property Taxes Levied for Debt Service            | 10,164,910                | 10,838,339             | 12,031,648                            | 13,094,292             | 14,004,347             |
| State Aid - Formula Grants                        | 12,015,689                | 11,434,965             | 8,621,061                             | 7,051,886              | 7,393,408              |
| Grants and Contributions Not Restricted           | -                         | -                      | -                                     | 208,000                | -                      |
| Investment Earnings                               | 103,695                   | 205,534                | 423,827                               | 562,478                | 416,560                |
| Miscellaneous                                     | 1,742                     | 876                    | 191,375                               | 103,666                | 102,980                |
| Gain on Sale of Assets                            | 729,158                   | -                      | -                                     | -                      | -                      |
| <b>Total Revenue</b>                              | <b>\$ 53,471,139</b>      | <b>\$ 58,207,566</b>   | <b>\$ 51,864,312</b>                  | <b>\$ 64,189,735</b>   | <b>\$ 63,844,150</b>   |
| <b>Expenses:</b>                                  |                           |                        |                                       |                        |                        |
| Instruction                                       | \$ 25,275,147             | \$ 26,426,091          | \$ 18,941,941                         | \$ 29,033,848          | \$ 29,549,392          |
| Instruction Resources & Media Services            | 729,825                   | 811,264                | 636,161                               | 899,980                | 901,945                |
| Curriculum & Staff Development                    | 1,577,110                 | 1,894,654              | 1,228,607                             | 2,105,758              | 1,849,275              |
| Instructional Leadership                          | 621,017                   | 651,746                | 356,966                               | 775,640                | 676,563                |
| School Leadership                                 | 2,743,576                 | 2,741,085              | 2,073,043                             | 3,208,822              | 3,385,782              |
| Guidance, Counseling & Evaluation Services        | 1,582,485                 | 1,700,985              | 1,336,429                             | 2,138,054              | 2,077,164              |
| Health Services                                   | 463,394                   | 487,220                | 339,103                               | 510,991                | 550,661                |
| Student Transportation                            | 1,063,459                 | 1,260,756              | 984,195                               | 1,487,630              | 1,820,833              |
| Food Service                                      | 1,918,708                 | 1,939,306              | 1,833,963                             | 2,169,391              | 2,013,987              |
| Cocurricular/Extracurricular Activities           | 3,469,820                 | 3,809,243              | 3,329,297                             | 4,262,387              | 3,619,541              |
| General Administration                            | 1,786,023                 | 2,124,184              | 1,515,250                             | 2,092,358              | 2,739,435              |
| Plant Maintenance & Operations                    | 3,990,727                 | 4,089,832              | 3,740,641                             | 4,502,114              | 4,436,844              |
| Security and Monitoring Services                  | 102,612                   | 104,438                | 127,095                               | 814,306                | 1,038,738              |
| Data Processing Services                          | 731,735                   | 711,105                | 591,265                               | 793,955                | 749,378                |
| Community Services                                | 1,013,442                 | 1,028,563              | 998,495                               | 1,180,481              | 1,139,591              |
| Debt Service - Interest on Long-term Debt         | 6,014,238                 | 6,132,329              | 5,593,946                             | 6,182,433              | 6,054,397              |
| Debt Service - Bond Issuance Cost and Fees        | -                         | 221,445                | 89,800                                | 158,147                | 154,946                |
| Other Intergovernmental Charges                   | 195,330                   | 249,585                | 285,522                               | 283,060                | 298,385                |
| Capital Outlay                                    | 1,334,827                 | 1,300,109              | 1,702,632                             | 2,701,815              | 529,631                |
| Payments to Fiscal Agent/Member Districts of SSA  | 13,270                    | -                      | 14,477                                | 14,800                 | 16,600                 |
| Contracted Instructional Services Between Schools | -                         | 608,024                | 766,070                               | 992,443                | 159,239                |
| Payments to Juvenile Justice Alternative Ed. Prg. | -                         | 14,470                 | -                                     | -                      | -                      |
| <b>Total Expenditures</b>                         | <b>\$ 54,626,745</b>      | <b>\$ 58,306,434</b>   | <b>\$ 46,484,898</b>                  | <b>\$ 66,308,413</b>   | <b>\$ 63,762,327</b>   |
| <b>Change in Net Assets</b>                       | <b>\$ (1,155,606)</b>     | <b>\$ (98,868)</b>     | <b>\$ 5,379,414</b>                   | <b>\$ (2,118,678)</b>  | <b>\$ 81,823</b>       |
| <b>Beginning Net Assets</b>                       | <b>\$ (8,856,537)</b>     | <b>\$ (10,012,143)</b> | <b>\$ (10,111,011)</b>                | <b>\$ (30,926,467)</b> | <b>\$ (33,045,145)</b> |
| <b>Prior Period Adjustment</b>                    | <b>\$ -</b>               | <b>\$ -</b>            | <b>\$ (26,194,870) <sup>(2)</sup></b> | <b>\$ -</b>            | <b>\$ (241,494)</b>    |
| <b>Ending Net Assets</b>                          | <b>\$ (10,012,143)</b>    | <b>\$ (10,111,011)</b> | <b>\$ (30,926,467)</b>                | <b>\$ (33,045,145)</b> | <b>\$ (33,204,816)</b> |

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

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

**APPENDIX B**

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

**LOVEJOY INDEPENDENT SCHOOL DISTRICT**

**General and Economic Information**

The Lovejoy Independent School District is located three miles east of Allen and about 25 miles north of Dallas in the fast developing region of central Collin County. The District includes portions of the cities of Allen and Fairview and covers an area of approximately 19 square miles, bound by Plano ISD on the south, Allen ISD on the west, and McKinney ISD on the north. The District's current estimated population is 20,167.

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

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

**Enrollment Statistics**

| <u>Year Ending 6/30</u> | <u>Enrollment*</u> |
|-------------------------|--------------------|
| 2007                    | 2,019              |
| 2008                    | 2,501              |
| 2009                    | 2,873              |
| 2010                    | 3,225              |
| 2011                    | 3,388              |
| 2012                    | 3,540              |
| 2013                    | 3,650              |
| 2014                    | 3,813              |
| 2015                    | 3,802              |
| 2016                    | 3,920              |
| 2017                    | 4,096              |
| 2018                    | 4,215              |
| 2019                    | 4,325              |
| 2020                    | 4,347              |
| 2021                    | 4,240              |
| Current                 | 4,323              |

*\*Enrollment figures reported as of the end of the school year*

**District Staff**

|                               |     |
|-------------------------------|-----|
| Teachers                      | 285 |
| Auxiliary Personnel           | 100 |
| Teachers' Aides & Secretaries | 68  |
| Administrators                | 33  |
| Other                         | 59  |
|                               | 545 |

**Facilities**

| <u>Campus</u>                | <u>Grades</u> | <u>Current Enrollment</u> | <u>Capacity</u> | <u>Year Built</u> | <u>Year of Addition/<br/>Renovation</u> |
|------------------------------|---------------|---------------------------|-----------------|-------------------|---|
| Lovejoy Child Development    | 6wks – PK     | 79                        | 600             | 1984              | 2008/2009                               |
| Hart Elementary              | K - 4         | 592                       | 600             | 2000              | 2015                                    |
| Puster Elementary            | K - 4         | 658                       | 650             | 2008              | NA                                      |
| Sloan Creek Intermediate     | 5 - 6         | 656                       | 850             | 2008              | NA                                      |
| Willow Springs Middle School | 7 - 8         | 775                       | 850             | 2013              | NA                                      |
| Lovejoy High School          | 9 - 12        | 1,642                     | 1,500           | 2006              | 2010/2018                               |

**Principal Employers within the City of Allen**

| <u>Name of Company</u>  | <u>Type of Business</u>        | <u>Number of Employees</u> |
|-------------------------|--------------------------------|----------------------------|
| Experian                | National Data Center           | 300+                       |
| Jack Henry & Associates | Financial Software Development | 300+                       |
| Frontier Communications | Telecommunications Services    | 300+                       |
| Crawford & Company      | Insurance Company              | 300+                       |
| NetScout Systems        | Software Company               | 300+                       |
| Andrews Distributing    | Beverage Distribution          | 300+                       |
| Texas Health-Allen      | Hospital                       | 300+                       |
| PFS Web                 | eCommerce Solutions            | 300+                       |
| WatchGuard              | Motorola Solutions             | 300+                       |
| GC Packaging            | Manufacturer                   | 300+                       |

Source: <http://www.allenedc.com/labor-demographics/key-industries-employers>



### Unemployment Rates

|                | July<br><u>2019</u> | July<br><u>2020</u> | July<br><u>2021</u> |
|----------------|---------------------|---------------------|---------------------|
| Collin County  | 3.4%                | 7.7%                | 4.5%                |
| State of Texas | 3.8%                | 9.6%                | 6.0%                |

Source: Texas Workforce Commission.

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

**Proposed Form of Opinion of Bond Counsel**

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

**LOVEJOY INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2021**

**IN THE AGGREGATE PRINCIPAL AMOUNT OF \$30,560,000**

---

**AS BOND COUNSEL** for the Lovejoy 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, 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 the executed Bond Numbered 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 principles of sovereign immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by 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 or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). 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.



**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 being financed 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, the certification as to the sufficiency of the deposit to the escrow fund, and the certificate with respect to arbitration 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.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**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 JUNE 30, 2020**

**LOVEJOY INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED JUNE 30, 2020**

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2020

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CERTIFICATE OF BOARD

Lovejoy Independent School District  
Name of School District

Collin  
County

043-919  
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved \_\_\_\_\_ disapproved for the year ended June 30, 2020, at a meeting of the Board of Trustees of such school district on the 19th day of October, 2020.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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

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

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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  
Lovejoy Independent School District  
Allen, Texas 75002

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lovejoy Independent School District (the District), as of and for the year ended June 30, 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 Lovejoy Independent School District as of June 30, 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 7 through 13 and the Teacher Retirement System schedules on pages 62 through 67 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 Lovejoy 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules, and the schedule of expenditures of federal awards 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, the required TEA schedules, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2020 on our consideration of Lovejoy 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 Lovejoy Independent School District's internal control over financial reporting and compliance.



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

October 17, 2020

**LOVEJOY INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2020  
(UNAUDITED)**

As management of Lovejoy Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2020. Please read this narrative in conjunction with the independent auditors' report on page 5, and the District's Basic Financial Statements that begin on page 17.

**FINANCIAL HIGHLIGHTS**

- The liabilities and deferred inflows of Lovejoy Independent School District exceeded its assets and deferred outflows at the close of the most recent fiscal year resulting in a negative net position of \$33,204,816.
- The District's total net position increased by \$81,823 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 \$27,179,761, a decrease of \$2,852,924 for the year. Over 34% of this total amount (\$9,335,984) is unassigned and available for use within the District's commitments and policies.
- At the end of the current fiscal period, unassigned fund balance for the general fund of \$9,335,984 was 22.1% of the total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 17 and 18). 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 20) 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. 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 District has no component units for which it is financially accountable.

The notes to the financial statements (starting on page 31) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

## **Reporting the District as a Whole**

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

The analysis of the District's overall financial condition and operations begins on page 17. Its primary purpose is to show whether the financial position of the District is improving or deteriorating as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, deferred inflows 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 it. The District's net position provides 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.

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

## **Reporting the District's Most Significant Funds**

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The fund financial statements begin on page 20 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

- Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains twenty-two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, each of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 20 through 27 of this report.
- Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position that can be found on page 28. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis presents both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

### Governmental Activities

**Net Position.** The net position of the District's governmental activities at June 30, 2020 was a \$33,204,816 deficit. Investment in capital assets (e.g. land, building, furniture, vehicles and equipment) less any related debt used to acquire those assets that is still outstanding was a deficit of \$11,679,336 at June 30, 2020. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's governmental activities net position (\$5,718,245) represents resources that are subject to external restrictions on how they may be used. There was no unrestricted net position at June 30, 2020.

**Changes in Net Position.** The District's total revenues of its governmental activities were \$63,844,150. A significant portion, approximately 68.8 percent, of the revenue comes from property taxes. Another 11.0 percent comes from state aid - formula grants while only 11.6 percent relates to charges for services. This reflects a \$345,585 decrease in revenues from 2018-2019. The total revenues were used to fund the cost of all programs and services in the amount of \$63,762,327, and to pay down the District's debt. This reflects a \$2,546,086 decrease in expenditures from 2018-2019, or approximately 3.84%.

**Governmental Activities.** Funding for governmental activities is by specific program revenue or through general revenues such as property taxes, state aid and investment earnings. Program revenues directly attributable to specific activities funded some of the governmental activities costs. These program revenues amounted to \$12,016,526 (grant revenues, tuition and facility leasing, for example). The remaining cost of governmental activities not directly funded by program revenues was \$51,745,081, which were primarily funded by property taxes in the amount of \$43,914,676 and state revenue of \$7,393,408.

**Table I  
NET POSITION**

|  | Governmental<br>Activities<br>June 30,<br>2019 | Governmental<br>Activities<br>June 30,<br>2020 | Difference                 |
|--|--|--|----------------------------|
| Current and other assets                               | \$ 34,892,662                                  | \$ 32,213,773                                  | \$ (2,678,889)             |
| Capital assets   | 143,311,475                                    | 140,743,322                                    | (2,568,153)                |
| Total assets   | <u>178,204,137</u>                             | <u>172,957,095</u>                             | <u>(5,247,042)</u>         |
| Deferred outflows of resources                         | 16,160,706                                     | 15,398,530                                     | (762,176)                  |
| Total assets and deferred outflows<br>of resources     | <u>194,364,843</u>                             | <u>188,355,625</u>                             | <u>(6,009,218)</u>         |
| Long-term liabilities                                  | 213,693,379                                    | 204,230,166                                    | (9,463,213)                |
| Other liabilities                                      | 6,310,394                                      | 6,579,674                                      | 269,280                    |
| Total liabilities                                      | <u>220,003,773</u>                             | <u>210,809,840</u>                             | <u>(9,193,933)</u>         |
| Deferred inflows of resources                          | 7,406,215                                      | 10,750,601                                     | 3,344,386                  |
| Total liabilities and deferred inflows<br>of resources | <u>227,409,988</u>                             | <u>221,560,441</u>                             | <u>(5,849,547)</u>         |
| Net Position:  |  |  |                            |
| Net investments in capital assets                      | (14,610,103)                                   | (11,679,336)                                   | 2,930,767                  |
| Restricted   | 5,939,452                                      | 5,718,245                                      | (221,207)                  |
| Unrestricted   | <u>(24,374,494)</u>                            | <u>(27,243,725)</u>                            | <u>(2,869,231)</u>         |
| Total Net Position                                     | <u><u>\$(33,045,145)</u></u>                   | <u><u>\$(33,204,816)</u></u>                   | <u><u>\$ (159,671)</u></u> |



**Table II**  
**CHANGES IN NET POSITION**

|  | Governmental<br>Activities<br>Year<br>Ended<br>June 30,<br>2019 | Governmental<br>Activities<br>Year<br>Ended<br>June 30,<br>2020 | Difference   |
|--|---|---|--------------|
| Revenues:  |   |   |              |
| Program Revenues:                                  |   |   |              |
| Charges for services                               | \$ 4,291,551  | \$ 3,778,134  | \$ (513,417) |
| Operating grants and contributions                 | 7,911,698   | 7,869,392   | (42,306)     |
| Capital grants                                     | 330,000   | 369,000   | 39,000       |
| General Revenues:                                  |   |   |              |
| Maintenance and operations taxes                   | 30,636,164  | 29,910,329  | (725,835)    |
| Debt service taxes                                 | 13,094,292  | 14,004,347  | 910,055      |
| State aid  | 7,051,886   | 7,393,408   | 341,522      |
| Investment earnings                                | 562,478   | 416,560   | (145,918)    |
| Gifts and contributions                            | 208,000   | -   | (208,000)    |
| Miscellaneous                                      | 103,666   | 102,980   | (686)        |
| Total Revenue                                      | 64,189,735  | 63,844,150  | (345,585)    |
| Expenses:  |   |   |              |
| Instruction, curriculum and<br>media services      | 32,039,586  | 32,300,612  | 261,026      |
| Instructional and school leadership                | 3,984,462   | 4,062,345   | 77,883       |
| Student support services                           | 4,136,675   | 4,448,658   | 311,983      |
| Child nutrition                                    | 2,169,391   | 2,013,987   | (155,404)    |
| Cocurricular activities                            | 4,262,387   | 3,619,541   | (642,846)    |
| General administration                             | 2,092,358   | 2,739,435   | 647,077      |
| Plant maintenance, security and<br>data processing | 6,110,375   | 6,224,960   | 114,585      |
| Community services                                 | 1,180,481   | 1,139,591   | (40,890)     |
| Debt services                                      | 6,340,580   | 6,209,343   | (131,237)    |
| Capital outlay                                     | 2,701,815   | 529,631   | (2,172,184)  |
| Intergovernmental charges                          | 1,290,303   | 474,224   | (816,079)    |
| Total Expenses                                     | 66,308,413  | 63,762,327  | (2,546,086)  |
| Increase (Decrease) in Net Position                | (2,118,678)   | 81,823  | 2,200,501    |
| Net Position - beginning of period                 | (30,926,467)  | (33,045,145)  | (2,118,678)  |
| Prior period adjustment                            | -   | (241,494)   | (241,494)    |
| Net Position - end of period                       | \$(33,045,145)  | \$(33,204,816)  | \$ (159,671) |

## THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$27,179,761, a decrease of \$2,852,924. Approximately 79 percent of this total amount (\$21,461,516) constitutes *committed, assigned and unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *nonspendable or restricted* to indicate that it is not available for new spending because it is already restricted to pay debt service (\$5,524,546), or for food service (\$177,459), or already spent on inventories (\$16,240).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$9,335,984, while the total fund balance was \$9,335,984. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Total fund balance and unassigned fund balance represents 22.12 percent of the total general fund expenditures.

The fund balance of the District's general fund increased by \$59,734 during the current fiscal year, compared to a \$36,248 increase in the previous year. Key factors related to this change are as follows:

- A \$928,709 decrease in property tax revenues combined with a \$341,522 increase in the state foundation and per capita funding contributed to a \$849,320 overall decrease in total revenues. However, expenditures decreased \$1,061,037 or 2.45% compared to the prior year.

The debt service fund has a total fund balance of \$5,524,546, all of which is reserved for the payment of debt service. The net decrease in fund balance during the period in the debt service fund was \$32,783, compared to a \$972,454 increase in the previous year. Tax revenues were \$775,334 higher than the previous year but debt service expenditures were \$1,704,402 higher.

Other changes in fund balances should also be noted. The fund balance in the capital projects fund decreased by \$2,844,867 due primarily to \$3,021,654 spent on construction-related costs. Although these and other capital expenditures reduce available fund balances, they create new assets for the District as reported in the Statement of Net Position and discussed in Note 5 to the financial statements.

Over the course of the year, the Board of Trustees revised the District's budget four 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 June, 2019). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The principal amendment in this case was an increase in the anticipated amount of State funding to be received. 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 \$9,335,984 reported on page 20 differs from the General Fund's budgetary fund balance of \$8,176,250 reported in the budgetary comparison schedule on page 28. For the year ended June 30, 2020, actual general fund expenditures on a budgetary basis were \$42,201,980, below the original and final budget expenditures of \$44,602,000. Actual revenue on a budgetary basis was \$42,453,240 compared to the budget of \$43,502,000. The actual variance of \$1,048,760 was due to lower than expected state revenue.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2020, the District had \$140,743,322 (net of accumulated 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 decrease of \$2,568,153, or 1.79 percent, below last year.

This fiscal year's major additions included:

|   |                           |
|---|---------------------------|
| Final construction costs on renovations and additions<br>at an existing high school, paid for with proceeds of general<br>obligation bonds. | \$1,326,810               |
| 10 school buses   | 1,023,568                 |
| Door barricade system   | <u>99,920</u>             |
| <b>TOTAL</b>  | <b><u>\$2,450,298</u></b> |

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 \$171,559,254 in bonds outstanding (including accreted interest on bonds and premiums on bond issuances) versus \$179,676,807 last year—a decrease of 4.52 percent. \$7,230,000 in new debt was incurred during the current fiscal year. The District's underlying rating for unlimited tax bonds is "AA" by S&P, and "AA-" by Fitch but is considered AAA as a result of guarantees of the Texas Permanent School Fund.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is \$279,229,304, which is in excess of the District's outstanding general obligation debt.

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 Lovejoy ISD Board of Trustees held nine budget-related workshops from November 2019 to June 2020 to study, strategize, and make difficult budget decisions to balance the 2020-2021 budget. As the district incurred a significant loss of state funding over several years, it was imperative to make adjustments to balance the budget without sacrificing the quality of successful educational programs. The impact of House Bill 3 in 2019 was a significant reduction in recapture for the district and a mandated compression of the tax rate. However, the district still received less money in state formula revenue than before House Bill 3. In order to balance the budget for 2020-21, the Board of Trustees modified the transportation services offered by the district, now limiting services to only those homes outside of a defined distance from each campus. This decision also aligns Lovejoy ISD with the transportation practices of surrounding districts and saves approximately \$575,000 annually. Tax rate compression implementation continued and the district adopted a maintenance and operations tax rate of \$1.0547 for 2020-21, about a penny less than the previous year. The financial impact of the COVID-19 pandemic on the district came mostly from a loss of local revenue sources from March to June, but the State essentially mitigated any loss of formula revenue for 2019-2020. As a net result of tight budget management, unique non-operating grant receipts, and savings from facility operations during the spring, the district slightly increased fund balance in 2019-2020 and also adopted a balanced budget for 2020-21. This creates a positive financial trajectory and positions the district to navigate potential reductions in funding from the State as a result of COVID-19.

## **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 demonstrate the District's accountability for funds the District receives. If you have questions about this report or need additional financial information, contact the District's business office, at Lovejoy Independent School District, 259 Country Club Road, Allen, Texas 75002, (469) 742-8000.

## BASIC FINANCIAL STATEMENTS

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LOVEJOY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2020

EXHIBIT A-1

| Data<br>Control<br>Codes                       | Primary Government         |
|--|----------------------------|
|  | Governmental<br>Activities |
| <b>ASSETS</b>                                  |                            |
| 1110 Cash and Cash Equivalents                 | \$ 3,180,014               |
| 1120 Current Investments                       | 26,013,397                 |
| 1220 Property Taxes - Delinquent               | 1,015,821                  |
| 1230 Allowance for Uncollectible Taxes         | (10,098)                   |
| 1240 Due from Other Governments                | 1,939,410                  |
| 1300 Inventories                               | 75,229                     |
| Capital Assets:                                |                            |
| 1510 Land                                      | 6,053,893                  |
| 1520 Buildings, Net                            | 128,885,182                |
| 1530 Furniture and Equipment, Net              | 3,050,882                  |
| 1540 Other Capital Assets, Net                 | 2,630,744                  |
| 1580 Construction in Progress                  | 122,621                    |
| 1000 Total Assets                              | 172,957,095                |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                            |
| 1701 Deferred Charge for Refunding             | 4,155,767                  |
| 1705 Deferred Outflow Related to TRS Pension   | 8,137,019                  |
| 1706 Deferred Outflow Related to TRS OPEB      | 3,105,744                  |
| 1700 Total Deferred Outflows of Resources      | 15,398,530                 |
| <b>LIABILITIES</b>                             |                            |
| 2110 Accounts Payable                          | 197,220                    |
| 2150 Payroll Deductions and Withholdings       | (10,529)                   |
| 2160 Accrued Wages Payable                     | 3,579,623                  |
| 2180 Due to Other Governments                  | 260,262                    |
| 2200 Accrued Expenses                          | 2,374,589                  |
| 2300 Unearned Revenue                          | 178,509                    |
| Noncurrent Liabilities:                        |                            |
| 2501 Due Within One Year                       | 5,644,664                  |
| 2502 Due in More Than One Year                 | 165,914,590                |
| 2540 Net Pension Liability (District's Share)  | 15,409,080                 |
| 2545 Net OPEB Liability (District's Share)     | 17,261,832                 |
| 2000 Total Liabilities                         | 210,809,840                |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                            |
| 2605 Deferred Inflow Related to TRS Pension    | 3,282,498                  |
| 2606 Deferred Inflow Related to TRS OPEB       | 7,468,103                  |
| 2600 Total Deferred Inflows of Resources       | 10,750,601                 |
| <b>NET POSITION</b>                            |                            |
| 3200 Net Investment in Capital Assets          | (11,679,336)               |
| 3820 Restricted for Federal and State Programs | 193,699                    |
| 3850 Restricted for Debt Service               | 5,524,546                  |
| 3900 Unrestricted                              | (27,243,725)               |
| 3000 Total Net Position                        | \$ (33,204,816)            |

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

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

| Data<br>Control<br>Codes                             | 1                    | Program Revenues        |  |
|--|----------------------|-------------------------|--|
|  |                      | 3                       | 4  |
|  | Expenses             | Charges for<br>Services | Operating<br>Grants and<br>Contributions |
| <b>Primary Government:</b>                           |                      |                         |  |
| <b>GOVERNMENTAL ACTIVITIES:</b>                      |                      |                         |  |
| 11 Instruction                                       | \$ 29,549,392        | \$ 1,635,561            | \$ 3,096,961                             |
| 12 Instructional Resources and Media Services        | 901,945              | -                       | 47,107                                   |
| 13 Curriculum and Instructional Staff Development    | 1,849,275            | -                       | 165,841                                  |
| 21 Instructional Leadership                          | 676,563              | -                       | 89,209                                   |
| 23 School Leadership                                 | 3,385,782            | -                       | 220,948                                  |
| 31 Guidance, Counseling and Evaluation Services      | 2,077,164            | -                       | 329,906                                  |
| 33 Health Services                                   | 550,661              | 257,692                 | 32,924                                   |
| 34 Student (Pupil) Transportation                    | 1,820,833            | -                       | 157,145                                  |
| 35 Food Services                                     | 2,013,987            | 1,602,980               | 99,056                                   |
| 36 Extracurricular Activities                        | 3,619,541            | 220,764                 | 1,859,129                                |
| 41 General Administration                            | 2,739,435            | -                       | 200,747                                  |
| 51 Facilities Maintenance and Operations             | 4,436,844            | 61,137                  | 95,996                                   |
| 52 Security and Monitoring Services                  | 1,038,738            | -                       | 554,965                                  |
| 53 Data Processing Services                          | 749,378              | -                       | 24,309                                   |
| 61 Community Services                                | 1,139,591            | -                       | 732,785                                  |
| 72 Debt Service - Interest on Long-Term Debt         | 6,054,397            | -                       | 162,364                                  |
| 73 Debt Service - Bond Issuance Cost and Fees        | 154,946              | -                       | -  |
| 81 Capital Outlay                                    | 529,631              | -                       | -  |
| 91 Contracted Instructional Services Between Schools | 159,239              | -                       | -  |
| 93 Payments Related to Shared Services Arrangements  | 16,600               | -                       | -  |
| 99 Other Intergovernmental Charges                   | 298,385              | -                       | -  |
| <b>[TP] TOTAL PRIMARY GOVERNMENT:</b>                | <b>\$ 63,762,327</b> | <b>\$ 3,778,134</b>     | <b>\$ 7,869,392</b>                      |

|         |  |
|---------|--|
| Data    | General Revenues:                            |
| Control | Taxes:                                       |
| Codes   |  |
| MT      | Property Taxes, Levied for General Purposes  |
| DT      | Property Taxes, Levied for Debt Service      |
| SF      | State Aid - Formula Grants                   |
| IE      | Investment Earnings                          |
| MI      | Miscellaneous Local and Intermediate Revenue |
| TR      | Total General Revenues                       |
| CN      | Change in Net Position                       |
| NB      | Net Position - Beginning                     |
| PA      | Prior Period Adjustment                      |
| NE      | Net Position - Ending                        |

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



|  |                | Net (Expense) Revenue and<br>Changes in Net Position |                     |
|--|----------------|--|---------------------|
| <u>5</u>                               |                | <u>6</u>   |                     |
| Capital<br>Grants and<br>Contributions |                | Governmental<br>Activities                           |                     |
| \$                                     | -              | \$   | (24,816,870)        |
|  | -              |  | (854,838)           |
|  | -              |  | (1,683,434)         |
|  | -              |  | (587,354)           |
|  | -              |  | (3,164,834)         |
|  | -              |  | (1,747,258)         |
|  | -              |  | (260,045)           |
|  | 369,000        |  | (1,294,688)         |
|  | -              |  | (311,951)           |
|  | -              |  | (1,539,648)         |
|  | -              |  | (2,538,688)         |
|  | -              |  | (4,279,711)         |
|  | -              |  | (483,773)           |
|  | -              |  | (725,069)           |
|  | -              |  | (406,806)           |
|  | -              |  | (5,892,033)         |
|  | -              |  | (154,946)           |
|  | -              |  | (529,631)           |
|  | -              |  | (159,239)           |
|  | -              |  | (16,600)            |
|  | -              |  | (298,385)           |
| \$                                     | <u>369,000</u> |  | <u>(51,745,801)</u> |

29,910,329

14,004,347

7,393,408

416,560

102,980

51,827,624

81,823

(33,045,145)

(241,494)

\$ (33,204,816)

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2020

| Data<br>Control<br>Codes                                 | 10<br>General<br>Fund | 50<br>Debt Service<br>Fund | 60<br>Capital<br>Projects |
|--|-----------------------|----------------------------|---------------------------|
| <b>ASSETS</b>  |                       |                            |                           |
| 1110 Cash and Cash Equivalents                           | \$ 2,204,769          | \$ (500)                   | \$ 432,412                |
| 1120 Investments - Current                               | 10,024,432            | 5,412,557                  | 10,576,408                |
| 1220 Property Taxes - Delinquent                         | 698,106               | 317,715                    | -                         |
| 1230 Allowance for Uncollectible Taxes                   | (6,981)               | (3,117)                    | -                         |
| 1240 Due from Other Governments                          | 936,160               | -                          | -                         |
| 1300 Inventories   | -                     | -                          | -                         |
| 1000 Total Assets  | <u>\$ 13,856,486</u>  | <u>\$ 5,726,655</u>        | <u>\$ 11,008,820</u>      |
| <b>LIABILITIES</b>                                       |                       |                            |                           |
| 2110 Accounts Payable                                    | \$ 197,220            | \$ -                       | \$ -                      |
| 2150 Payroll Deductions and Withholdings Payable         | (10,529)              | -                          | -                         |
| 2160 Accrued Wages Payable                               | 3,362,951             | -                          | -                         |
| 2180 Due to Other Governments                            | 260,262               | -                          | -                         |
| 2200 Accrued Expenditures                                | 173,276               | -                          | -                         |
| 2300 Unearned Revenue                                    | 106,400               | -                          | -                         |
| 2000 Total Liabilities                                   | <u>4,089,580</u>      | <u>-</u>                   | <u>-</u>                  |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                     |                       |                            |                           |
| 2601 Unavailable Revenue - Property Taxes                | 430,922               | 202,109                    | -                         |
| 2600 Total Deferred Inflows of Resources                 | <u>430,922</u>        | <u>202,109</u>             | <u>-</u>                  |
| <b>FUND BALANCES</b>                                     |                       |                            |                           |
| Nonspendable Fund Balance:                               |                       |                            |                           |
| 3410 Inventories   | -                     | -                          | -                         |
| Restricted Fund Balance:                                 |                       |                            |                           |
| 3450 Federal or State Funds Grant Restriction            | -                     | -                          | -                         |
| 3480 Retirement of Long-Term Debt                        | -                     | 5,524,546                  | -                         |
| Committed Fund Balance:                                  |                       |                            |                           |
| 3510 Construction  | -                     | -                          | 11,008,820                |
| 3545 Other Committed Fund Balance                        | -                     | -                          | -                         |
| 3600 Unassigned Fund Balance                             | 9,335,984             | -                          | -                         |
| 3000 Total Fund Balances                                 | <u>9,335,984</u>      | <u>5,524,546</u>           | <u>11,008,820</u>         |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 13,856,486</u>  | <u>\$ 5,726,655</u>        | <u>\$ 11,008,820</u>      |

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

| Other<br>Funds      | Total<br>Governmental<br>Funds |
|---------------------|--------------------------------|
| \$ 543,333          | \$ 3,180,014                   |
| -                   | 26,013,397                     |
| -                   | 1,015,821                      |
| -                   | (10,098)                       |
| 1,003,250           | 1,939,410                      |
| 75,229              | 75,229                         |
| <u>\$ 1,621,812</u> | <u>\$ 32,213,773</u>           |
| <br>                |                                |
| \$ -                | \$ 197,220                     |
| -                   | (10,529)                       |
| 216,672             | 3,579,623                      |
| -                   | 260,262                        |
| 22,620              | 195,896                        |
| 72,109              | 178,509                        |
| <u>311,401</u>      | <u>4,400,981</u>               |
| <br>                |                                |
| -                   | 633,031                        |
| <u>-</u>            | <u>633,031</u>                 |
| <br>                |                                |
| 16,240              | 16,240                         |
| 177,459             | 177,459                        |
| -                   | 5,524,546                      |
| -                   | 11,008,820                     |
| 1,116,712           | 1,116,712                      |
| -                   | 9,335,984                      |
| <u>1,310,411</u>    | <u>27,179,761</u>              |
| <br>                |                                |
| <u>\$ 1,621,812</u> | <u>\$ 32,213,773</u>           |

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LOVEJOY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2020

EXHIBIT C-2

|   |           |                     |
|---|-----------|---------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | \$        | 27,179,761          |
| 1 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements.   |           | 190,808,405         |
| 2 Accumulated depreciation is not reported in the fund financial statements.  |           | (50,065,083)        |
| 3 Bonds payable are not reported in the fund financial statements.  |           | (157,942,326)       |
| 4 Bond premiums and discounts are not recognized in the fund financial statements.  |           | (9,644,919)         |
| 5 Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.  |           | (2,178,693)         |
| 6 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 \$15,409,080, a Deferred Resource Inflow related to TRS in the amount of \$3,282,498, and a Deferred Resource Outflow related to TRS in the amount of \$8,137,019. This amounted to a decrease in Net Position in the amount of \$10,554,559.  |           | (10,554,559)        |
| 7 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 \$17,261,832, a Deferred Resource Inflow related to TRS OPEB in the amount of \$7,468,103, and a Deferred Resource Outflow related to TRS OPEB in the amount of \$3,105,744. This amounted to a net decrease in Net Position in the amount of \$21,624,191. |           | (21,624,191)        |
| 8 Property tax revenue reported as unavailable revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.  |           | 633,031             |
| 9 Accreted interest on capital appreciation bonds has not been recorded in the fund financial statements.   |           | (3,972,009)         |
| 10 Deferred charge on bond refundings is not recognized in the fund financial statements.   |           | 4,155,767           |
| <b>19 Net Position of Governmental Activities</b>   | <b>\$</b> | <b>(33,204,816)</b> |

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

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2020

| Data Control Codes   | 10<br>General<br>Fund | 50<br>Debt Service<br>Fund | 60<br>Capital<br>Projects |
|--|-----------------------|----------------------------|---------------------------|
| <b>REVENUES:</b>   |                       |                            |                           |
| 5700 Total Local and Intermediate Sources                      | \$ 31,994,895         | \$ 14,047,856              | \$ 176,787                |
| 5800 State Program Revenues                                    | 10,199,697            | 161,408                    | -                         |
| 5900 Federal Program Revenues                                  | 258,648               | -                          | -                         |
| 5020 Total Revenues  | <u>42,453,240</u>     | <u>14,209,264</u>          | <u>176,787</u>            |
| <b>EXPENDITURES:</b>   |                       |                            |                           |
| <b>Current:</b>  |                       |                            |                           |
| 0011 Instruction   | 23,260,340            | -                          | -                         |
| 0012 Instructional Resources and Media Services                | 764,095               | -                          | -                         |
| 0013 Curriculum and Instructional Staff Development            | 1,499,471             | -                          | -                         |
| 0021 Instructional Leadership                                  | 515,529               | -                          | -                         |
| 0023 School Leadership   | 2,788,226             | -                          | -                         |
| 0031 Guidance, Counseling, and Evaluation Services             | 1,526,551             | -                          | -                         |
| 0033 Health Services   | 455,665               | -                          | -                         |
| 0034 Student (Pupil) Transportation                            | 1,473,031             | -                          | -                         |
| 0035 Food Services   | -                     | -                          | -                         |
| 0036 Extracurricular Activities                                | 1,651,806             | -                          | -                         |
| 0041 General Administration                                    | 2,284,935             | -                          | -                         |
| 0051 Facilities Maintenance and Operations                     | 4,072,665             | -                          | -                         |
| 0052 Security and Monitoring Services                          | 581,476               | -                          | -                         |
| 0053 Data Processing Services                                  | 669,263               | -                          | -                         |
| 0061 Community Services  | 184,703               | -                          | -                         |
| <b>Debt Service:</b>   |                       |                            |                           |
| 0071 Principal on Long-Term Debt                               | -                     | 7,917,908                  | -                         |
| 0072 Interest on Long-Term Debt                                | -                     | 6,118,676                  | -                         |
| 0073 Bond Issuance Cost and Fees                               | -                     | 154,946                    | -                         |
| <b>Capital Outlay:</b>   |                       |                            |                           |
| 0081 Facilities Acquisition and Construction                   | -                     | -                          | 3,021,654                 |
| <b>Intergovernmental:</b>                                      |                       |                            |                           |
| 0091 Contracted Instructional Services Between Schools         | 159,239               | -                          | -                         |
| 0093 Payments to Fiscal Agent/Member Districts of SSA          | 16,600                | -                          | -                         |
| 0099 Other Intergovernmental Charges                           | 298,385               | -                          | -                         |
| 6030 Total Expenditures  | <u>42,201,980</u>     | <u>14,191,530</u>          | <u>3,021,654</u>          |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>251,260</u>        | <u>17,734</u>              | <u>(2,844,867)</u>        |
| <b>OTHER FINANCING SOURCES (USES):</b>                         |                       |                            |                           |
| 7911 Capital Related Debt Issued                               | -                     | 7,230,000                  | -                         |
| 7915 Transfers In  | 160,893               | -                          | -                         |
| 7916 Premium or Discount on Issuance of Bonds                  | -                     | 325,518                    | -                         |
| 8911 Transfers Out (Use)                                       | (110,925)             | -                          | -                         |
| 8949 Other (Uses)  | -                     | (7,606,035)                | -                         |
| 7080 Total Other Financing Sources (Uses)                      | <u>49,968</u>         | <u>(50,517)</u>            | <u>-</u>                  |
| 1200 Net Change in Fund Balances                               | 301,228               | (32,783)                   | (2,844,867)               |
| 0100 Fund Balance - July 1 (Beginning)                         | 9,276,250             | 5,557,329                  | 13,853,687                |
| 1300 Prior Period Adjustment                                   | (241,494)             | -                          | -                         |
| 3000 Fund Balance - June 30 (Ending)                           | <u>\$ 9,335,984</u>   | <u>\$ 5,524,546</u>        | <u>\$ 11,008,820</u>      |

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

|    | Other<br>Funds | Total<br>Governmental<br>Funds |
|----|----------------|--------------------------------|
| \$ | 4,200,677      | \$ 50,420,215                  |
|    | 676,556        | 11,037,661                     |
|    | 1,423,764      | 1,682,412                      |
|    | 6,300,997      | 63,140,288                     |
|    | 1,231,253      | 24,491,593                     |
|    | 652            | 764,747                        |
|    | 56,834         | 1,556,305                      |
|    | 43,878         | 559,407                        |
|    | 20,732         | 2,808,958                      |
|    | 188,662        | 1,715,213                      |
|    | -              | 455,665                        |
|    | 73,339         | 1,546,370                      |
|    | 1,834,592      | 1,834,592                      |
|    | 1,695,094      | 3,346,900                      |
|    | 74,297         | 2,359,232                      |
|    | -              | 4,072,665                      |
|    | 525,282        | 1,106,758                      |
|    | -              | 669,263                        |
|    | 782,916        | 967,619                        |
|    | -              | 7,917,908                      |
|    | -              | 6,118,676                      |
|    | -              | 154,946                        |
|    | -              | 3,021,654                      |
|    | -              | 159,239                        |
|    | -              | 16,600                         |
|    | -              | 298,385                        |
|    | 6,527,531      | 65,942,695                     |
|    | (226,534)      | (2,802,407)                    |
|    | -              | 7,230,000                      |
|    | 110,925        | 271,818                        |
|    | -              | 325,518                        |
|    | (160,893)      | (271,818)                      |
|    | -              | (7,606,035)                    |
|    | (49,968)       | (50,517)                       |
|    | (276,502)      | (2,852,924)                    |
|    | 1,586,913      | 30,274,179                     |
|    | -              | (241,494)                      |
| \$ | 1,310,411      | \$ 27,179,761                  |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2020

EXHIBIT C-4

|   |                       |
|---|-----------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>   | <b>\$ (2,852,924)</b> |
| 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.  | 2,625,191             |
| 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.   | (5,193,344)           |
| Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.  | 56,041                |
| 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.   | 90,208                |
| Current year issuances of bonds are shown as other resources in the fund financial statements but are shown as increases in long-term debt in the government-wide financial statements.   | (7,230,000)           |
| The premium on the current year issuances of bonds is recorded as an other resource in the fund financial statements, but is capitalized in the government-wide financial statements.   | (325,518)             |
| Payments to refund bonds payable are shown as other financing uses in the fund financial statements, but are shown as a reduction in long-term debt in the government-wide financial statements.  | 7,606,035             |
| 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 \$853,657. Contributions made before the measurement but during the 2020 FY were also de-expended and recorded as a reduction in the net pension liability for the District. This also caused an increase in the change in net position in the amount of \$157,836. These contributions were replaced with the District's pension expense for the year of \$3,275,992, which caused a decrease in the change in net position. The impact of all of these is to decrease net position by \$2,264,499. | (2,264,499)           |
| 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 \$217,837. These contributions were replaced with the District's OPEB expense for the year, which was \$573,350 and caused a decrease in net position. The impact of both of these is to decrease net position by \$355,513.   | (355,513)             |
| 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.   | 647,287               |

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



LOVEJOY INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2020

---

EXHIBIT C-4

|  |                  |
|--|------------------|
| Current year interest accretion on capital appreciation bonds is not recognized in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.   | (367,124)        |
| Current year principal payments on bonds payable are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.                 | 7,917,908        |
| Current year amortization of deferred charge 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. | (271,925)        |
| <b>Change in Net Position of Governmental Activities</b>   | <u>\$ 81,823</u> |

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

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2020

| Data<br>Control<br>Codes                                       | Budgeted Amounts |               | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|--|------------------|---------------|--------------------------------|--|
|  | Original         | Final         |                                |  |
| <b>REVENUES:</b>   |                  |               |                                |  |
| 5700 Total Local and Intermediate Sources                      | \$ 32,323,191    | \$ 32,323,191 | \$ 31,994,895                  | \$ (328,296)   |
| 5800 State Program Revenues                                    | 10,977,807       | 10,977,807    | 10,199,697                     | (778,110)  |
| 5900 Federal Program Revenues                                  | 201,002          | 201,002       | 258,648                        | 57,646   |
| 5020 Total Revenues  | 43,502,000       | 43,502,000    | 42,453,240                     | (1,048,760)  |
| <b>EXPENDITURES:</b>   |                  |               |                                |  |
| Current:   |                  |               |                                |  |
| 0011 Instruction   | 23,500,000       | 24,000,000    | 23,260,340                     | 739,660  |
| 0012 Instructional Resources and Media Services                | 795,000          | 815,000       | 764,095                        | 50,905   |
| 0013 Curriculum and Instructional Staff Development            | 1,630,000        | 1,675,000     | 1,499,471                      | 175,529  |
| 0021 Instructional Leadership                                  | 485,000          | 650,000       | 515,529                        | 134,471  |
| 0023 School Leadership   | 2,788,426        | 2,900,000     | 2,788,226                      | 111,774  |
| 0031 Guidance, Counseling, and Evaluation Services             | 1,735,000        | 1,700,000     | 1,526,551                      | 173,449  |
| 0033 Health Services   | 445,000          | 500,000       | 455,665                        | 44,335   |
| 0034 Student (Pupil) Transportation                            | 1,520,000        | 1,650,000     | 1,473,031                      | 176,969  |
| 0036 Extracurricular Activities                                | 1,700,000        | 1,700,000     | 1,651,806                      | 48,194   |
| 0041 General Administration                                    | 1,790,000        | 2,400,000     | 2,284,935                      | 115,065  |
| 0051 Facilities Maintenance and Operations                     | 4,250,000        | 4,200,000     | 4,072,665                      | 127,335  |
| 0052 Security and Monitoring Services                          | 420,000          | 750,000       | 581,476                        | 168,524  |
| 0053 Data Processing Services                                  | 715,000          | 725,000       | 669,263                        | 55,737   |
| 0061 Community Services  | 125,000          | 225,000       | 184,703                        | 40,297   |
| Intergovernmental:   |                  |               |                                |  |
| 0091 Contracted Instructional Services Between Schools         | 2,373,574        | 375,000       | 159,239                        | 215,761  |
| 0093 Payments to Fiscal Agent/Member Districts of SSA          | 15,000           | 20,000        | 16,600                         | 3,400  |
| 0095 Payments to Juvenile Justice Alternative Ed. Prg.         | 15,000           | 5,000         | -                              | 5,000  |
| 0099 Other Intergovernmental Charges                           | 300,000          | 312,000       | 298,385                        | 13,615   |
| 6030 Total Expenditures  | 44,602,000       | 44,602,000    | 42,201,980                     | 2,400,020  |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,100,000)      | (1,100,000)   | 251,260                        | 1,351,260  |
| <b>OTHER FINANCING SOURCES (USES):</b>                         |                  |               |                                |  |
| 7915 Transfers In  | -                | -             | 160,893                        | 160,893  |
| 8911 Transfers Out (Use)                                       | -                | -             | (110,925)                      | (110,925)  |
| 7080 Total Other Financing Sources (Uses)                      | -                | -             | 49,968                         | 49,968   |
| 1200 Net Change in Fund Balances                               | (1,100,000)      | (1,100,000)   | 301,228                        | 1,401,228  |
| 0100 Fund Balance - July 1 (Beginning)                         | 9,276,250        | 9,276,250     | 9,276,250                      | -  |
| 1300 Prior Period Adjustment                                   | -                | -             | (241,494)                      | (241,494)  |
| 3000 Fund Balance - June 30 (Ending)                           | \$ 8,176,250     | \$ 8,176,250  | \$ 9,335,984                   | \$ 1,159,734   |

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

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2020

EXHIBIT E-1

|                           | Private<br>Purpose<br>Trust Fund | Agency<br>Fund |
|---------------------------|----------------------------------|----------------|
| <b>ASSETS</b>             |                                  |                |
| Cash and Cash Equivalents | \$ 1,487                         | \$ 29,253      |
| Total Assets              | 1,487                            | \$ 29,253      |
| <b>LIABILITIES</b>        |                                  |                |
| Due to Student Groups     | 1,487                            | \$ 29,253      |
| Total Liabilities         | 1,487                            | \$ 29,253      |

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

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LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

Based on the aforementioned criteria, the Lovejoy 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 activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements, except that interfund services provided and used are not eliminated in the process of consolidation. 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 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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 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. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. For many funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District uses this fund to account for scholarship funds.
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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

Activities accounted for in the Special Revenue Funds are:

ESEA I, A Improving Basic Programs - funds granted to serve students needing reading and math assistance  
IDEA-Part B Formula - funds granted for children with disabilities  
IDEA-Part B Preschool - funds granted for preschool children  
National Breakfast and Lunch Program - funds granted to serve meals to disadvantaged children  
ESEA II, A Training and Recruiting - funds for training to improve teacher and principal quality  
Title III, A English Lang. Acquisition - funds to improve the education of limited English proficient children  
ESSER-School Emergency Relief - funds granted for operating costs during COVID-19  
Medicaid Admin Claim (MAC) - fund for administrative costs related to Medicaid services  
ESEA IV, Part A - funds granted to support the effective use of technology  
Advanced Placement Incentives - funds granted under the Texas Advanced Placement Award incentive program  
State Instructional Materials - funds granted for textbook and technology needs  
ESC20 SPED Support Grant - funds granted to support special education  
School Safety and Security Grant - funds grant for safety and security equipment  
Ready to Read - funds received from State license plate program for reading initiatives  
Campus Activity Funds - accounts for funds raised by a campus for the benefit of that campus  
Grants/Donations - accounts for the expenditure of grants and donations received by the District  
Learning at Lovejoy - accounts for the activity of an annual education conference  
School Store - accounts for the operating activity of a school store on two campuses  
Concessions Operations - accounts for the concessions activity of the child nutrition dept.  
Catering Operations - accounts for the catering activity of the child nutrition dept.  
Kids First/Day Care - accounts for the activity of an employee child care and an afterschool 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.

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, deferred outflows of resources 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. Agency funds have no measurement focus.

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 60-day availability period is also used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

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 unearned revenues, and funds expended but not yet received are shown as receivables.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first when appropriate, then unrestricted resources as they are needed.

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

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**

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund, debt service fund and food service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds. Many of the special revenue funds and the capital project fund adopt project-length budgets which do not correspond to the District's fiscal year.



LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2020

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

- Prior to June 20<sup>th</sup> the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- After one of more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.
- Prior to July 1<sup>st</sup> the Board legally adopts the budget for the general fund, debt service fund and food service fund.
- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, some budgetary amendments were necessary throughout the year.
- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principal, department director or divisional administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

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 June, 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.

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

|  |                     |
|--|---------------------|
|  | June 30, 2020       |
|  | <u>Fund Balance</u> |
| Appropriated Budget Funds – Food Service | \$ 193,699          |
| Nonappropriated Budget Funds             | <u>1,116,712</u>    |
| All Special Revenue Funds                | <u>\$1,310,411</u>  |

**E. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**F. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents in the accompanying financial statements is comprised of demand accounts and imprest funds. The District maintains a demand account on an imprest basis through which most obligations are paid. Checking account balances for most governmental fund expenditures are pooled into one demand account.

Investments in the accompanying financial statements is comprised of investments in state investment pools. The District has no investments at year-end that require adjustment to fair value.

**G. INVENTORIES**

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. In the Child Nutrition Fund, reported inventories have been shown as nonspendable fund balance to indicate that they are unavailable as current expendable financial resources.

**H. INTERFUND RECEIVABLES AND PAYABLES**

During the course of normal operations, the District has numerous transactions between funds. The most significant are short-term interfund loans, due to the fact that checking account balances for most governmental funds are pooled into one demand account. There were no interfund balances at June 30, 2020.

**I. CAPITAL ASSETS**

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

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

|                                     |           |
|-------------------------------------|-----------|
| Buildings and Building Improvements | 39 Years  |
| Vehicle                             | 5 Years   |
| Buses                               | 15 Years  |
| Other Equipment                     | 3-7 Years |

**J. COMPENSATED ABSENCES**

Vacations are to be taken within the same year they are earned, and any unused days at the end of the calendar year are forfeited. Therefore, no liability for unused vacation leave has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**K. NET POSITION**

Net position represents the difference between assets, deferred outflows, deferred inflows and liabilities. Net investment 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 legislations 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. Accretion is an adjustment of the difference between the price of a bond issued at an original discount and the par value of the bond. For the governmental activities debt, the accreted value is recognized as it accrues by fiscal year.

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 June 30, 2020 was \$4,155,767.

**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.

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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 June 30, 2020 was \$8,137,019.

**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 June 30, 2020 was \$3,105,744.

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

**Deferred inflows of resources for unavailable revenues** - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources in the fund financial statements. The amount of deferred inflows of resources reported in the governmental funds at June 30, 2020 was \$633,031.

**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 \$3,282,498.

**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 \$7,468,103.

**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 the year ended June 30, 2020, Lovejoy ISD participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program.

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves.

Based on information provided by TASB for the year ended June 30, 2020, Lovejoy ISD will have no additional liability beyond the contractual obligations for payment of contributions. There were no significant reductions in coverage in the past fiscal year.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**O. SUBSEQUENT EVENTS**

Management has reviewed events subsequent to June 30, 2020 through October 17, 2020, which is the date the financial statements were available to be issued. No subsequent events were identified that are required to be disclosed in the financial statements.

**P. 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.

**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**

In a previous year the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provided 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 inventories as being nonspendable as these items are not expected to be converted to cash.

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- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects fund resources are to be used for future construction and renovation projects and are restricted through bond orders and constitutional law. Food service resources are to be used in the food service program.
  
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of June 30, 2020 for campus activities and other various purposes.
  
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has assigned some fund balance of the General Fund as of June 30, 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 Board of Trustees has no formal fund balance policy that expresses an intent to maintain a level of assigned and unassigned fund balance in the General Fund but operates under a guideline of attempting to maintain a balance equal to 25 percent of the fund's operating expenditures.

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

**General Fund**

The General Fund has unassigned fund balance of \$9,335,984 at June 30, 2020.

**Other Major Funds**

The Debt Service Fund has restricted funds of \$5,524,546 at June 30, 2020 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt. The Capital Projects Fund has a fund balance of \$11,008,820 at June 30, 2020 consisting primarily of unspent bond proceeds.

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**Other Funds**

The fund balance of \$627,953 of the Campus Activity Fund (a special revenue fund) is shown as committed due to Board policy committing those funds to campus activities. The fund balance of \$144,265 of the Kids First/Day Care Fund, \$13,190 of the concessions and catering operations, and \$331,304 of the Grants/Donations Fund (all special revenue funds) are shown as committed due to similar Board policy. \$177,459 of the fund balance of the Food Service Fund (a special revenue fund) is shown as restricted for that purpose. The remainder of the Food Service Fund is shown as nonspendable fund balance because it has already been spent on inventories (\$16,240).

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

1. Cash Deposits:

At June 30, 2020, the carrying amount of the District's deposits checking accounts and interest-bearing savings accounts was \$3,209,754 and the bank balance was \$3,365,723. The District's cash deposits at June 30, 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 June 30, 2020, the District's cash balances totaled \$3,365,723. This entire amount was either collateralized with a surety bond 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.

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- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2020, the District held all of its investments in four public funds investment pools (TexPool, Texas Class, Lone Star and Texas Term). 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 TexPool at year-end was AAAm (Standard & Poor's), and the credit quality rating for Texas Class, Lone Star and Texas Term was AA Af (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 the TexPool, Texas Class, Lone Star and Texas Term investments 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 June 30, 2020, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

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

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

The District's investments at June 30, 2020, are shown below:

| <u>Name</u> | <u>Fair Value</u>   |
|-------------|---------------------|
| Lone Star   | \$10,381,544        |
| TexPool     | 9,998,514           |
| Texas Term  | 154,657             |
| Texas Class | <u>5,478,682</u>    |
| Total       | <u>\$26,013,397</u> |



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**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 investments in public funds investment pools are not required to be measured at fair value but are measured at amortized cost.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020, was as follows:

|  | Balance<br>July 1     | Additions/<br>Completions | Retirement/<br>Adjustments | Balance<br>June 30    |
|--|-----------------------|---------------------------|----------------------------|-----------------------|
| Governmental Activities:                     |                       |                           |                            |                       |
| Capital assets not being depreciated         |                       |                           |                            |                       |
| Land   | \$ 6,053,893          | \$ -                      | \$ -                       | \$ 6,053,893          |
| Construction in progress                     | 9,955,219             | 1,359,852                 | (11,192,450)               | 122,621               |
| Total capital assets not being depreciated   | <u>16,009,112</u>     | <u>1,359,852</u>          | <u>(11,192,450)</u>        | <u>6,176,514</u>      |
| Capital assets, being depreciated            |                       |                           |                            |                       |
| Buildings and improvements                   | 162,849,229           | 11,315,486                | -                          | 174,164,715           |
| Furniture and equipment                      | 5,547,799             | 96,622                    | -                          | 5,644,421             |
| Vehicles                                     | 3,777,074             | 1,045,681                 | -                          | 4,822,755             |
| Total capital assets being depreciated       | <u>172,174,102</u>    | <u>12,457,789</u>         | <u>-</u>                   | <u>184,631,891</u>    |
| Less accumulated depreciation for:           |                       |                           |                            |                       |
| Buildings and improvements                   | (40,927,841)          | (4,351,692)               | -                          | (45,279,533)          |
| Furniture and equipment                      | (2,015,633)           | (577,906)                 | -                          | (2,593,539)           |
| Vehicles                                     | (1,928,265)           | (263,746)                 | -                          | (2,192,011)           |
| Total accumulated depreciation               | <u>(44,871,739)</u>   | <u>(5,193,344)</u>        | <u>-</u>                   | <u>(50,065,083)</u>   |
| Total capital assets, being depreciated, net | <u>127,302,363</u>    | <u>7,264,445</u>          | <u>-</u>                   | <u>134,566,808</u>    |
| Governmental activities capital assets, net  | <u>\$ 143,311,475</u> | <u>\$ 8,624,297</u>       | <u>\$ (11,192,450)</u>     | <u>\$ 140,743,322</u> |

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

|  |                    |
|--|--------------------|
| Governmental activities:                           |                    |
| Instruction  | \$3,052,800        |
| Instructional Resources & Media Services           | 87,274             |
| Curriculum & Instructional Staff Development       | 175,824            |
| Instructional Leadership                           | 68,441             |
| School Leadership                                  | 361,659            |
| Guidance, Counseling & Evaluation Services         | 210,162            |
| Health Services                                    | 59,614             |
| Student Transportation                             | 184,399            |
| Food Services                                      | 141,409            |
| Cocurricular/Extracurricular Activities            | 171,961            |
| General Administration                             | 244,312            |
| Plant Maintenance and Operations                   | 261,016            |
| Data Processing Services                           | 53,991             |
| Community Services                                 | <u>120,482</u>     |
| Total depreciation expense-Governmental activities | <u>\$5,193,344</u> |

Land and construction in progress are not depreciated.

**NOTE 5. LONG-TERM DEBT**

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.

Long-term debt of the District consists of twelve series of general obligation bonds, accreted interest on capital appreciation bonds and premiums/discounts on bond issuances. All long-term debt represents transactions in the District's governmental activities.

The following is a summary of the changes in the District's Long-term Debt for the year ended June 30, 2020:

| Description                         | Interest Rate Payable | Amount Original Issue | Amounts Outstanding 7/1/19 | Additions           | Refunded/Retired    | Amounts Outstanding 6/30/20 | Due Within One Year |
|-------------------------------------|-----------------------|-----------------------|----------------------------|---------------------|---------------------|-----------------------------|---------------------|
| Bonded Indebtedness:                |                       |                       |                            |                     |                     |                             |                     |
| 2010 Building                       | 4.25-4.38%            | 7,500,000             | \$ 7,480,000               | \$ -                | \$ 7,475,000        | \$ 5,000                    | \$ -                |
| 2011 Refunding                      | 3.01%                 | 9,265,000             | 5,825,000                  | -                   | 585,000             | 5,240,000                   | 725,000             |
| 2012 Building                       | 2.51-4.67%            | 25,995,234            | 25,645,234                 | -                   | 82,908              | 25,562,326                  | -                   |
| 2013 Refunding                      | 2.16%                 | 9,100,000             | 8,945,000                  | -                   | 30,000              | 8,915,000                   | 30,000              |
| 2014 Bldg/Refunding                 | 2.00-5.00%            | 21,775,000            | 14,470,000                 | -                   | 1,130,000           | 13,340,000                  | 1,180,000           |
| 2015 Refunding                      | 3.00-5.00%            | 23,435,000            | 21,100,000                 | -                   | 830,000             | 20,270,000                  | 895,000             |
| 2015 Building                       | 1.50-4.00%            | 17,770,000            | 16,090,000                 | -                   | 385,000             | 15,705,000                  | 395,000             |
| 2016 Refunding                      | 3.125-5.00%           | 41,540,000            | 40,860,000                 | -                   | 980,000             | 39,880,000                  | 1,005,000           |
| 2017 Building                       | 3.00-5.00%            | 13,950,000            | 11,220,000                 | -                   | 310,000             | 10,910,000                  | 325,000             |
| 2018 Bldg/Refunding                 | 3.00%                 | 6,740,000             | 4,935,000                  | -                   | 1,850,000           | 3,085,000                   | 85,000              |
| 2019 Building                       | 3.00%                 | 9,535,000             | 9,535,000                  | -                   | 1,560,000           | 7,975,000                   | 420,000             |
| 2019 Refunding                      | 2.125-5.00%           | 7,230,000             | -                          | 7,230,000           | 175,000             | 7,055,000                   | -                   |
| Total Bonded Indebtedness           |                       |                       | <u>166,105,234</u>         | <u>7,230,000</u>    | <u>15,392,908</u>   | <u>157,942,326</u>          | <u>5,060,000</u>    |
| Premiums/Discounts on Bond Issuance |                       |                       | 9,966,688                  | 325,518             | 647,287             | 9,644,919                   | 584,664             |
| Accreted Interest                   |                       |                       | <u>3,604,885</u>           | <u>409,216</u>      | <u>42,092</u>       | <u>3,972,009</u>            | -                   |
| Total Other Obligations             |                       |                       | <u>13,571,573</u>          | <u>734,734</u>      | <u>689,379</u>      | <u>13,616,928</u>           | <u>584,664</u>      |
| Total Obligations of District       |                       |                       | <u>\$179,676,807</u>       | <u>\$ 7,964,734</u> | <u>\$16,082,287</u> | <u>\$171,559,254</u>        | <u>\$5,644,664</u>  |

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The District issues general obligation bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Current principal and interest requirements are payable solely from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District and interest earnings. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures. The District has never defaulted on any principal or interest payment.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2020.

**NOTE 6. DEBT SERVICE REQUIREMENTS - BONDS**

Debt service requirements to maturity are as follows:

| Year Ended<br><u>June 30</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total<br/>Requirements</u> |
|------------------------------|----------------------|---------------------|-------------------------------|
| 2021                         | \$ 5,060,000         | \$ 5,819,659        | \$ 10,879,659                 |
| 2022                         | 5,265,000            | 5,615,109           | 10,880,109                    |
| 2023                         | 5,485,000            | 5,402,258           | 10,887,258                    |
| 2024                         | 5,710,000            | 5,178,908           | 10,888,908                    |
| 2025                         | 5,950,000            | 4,945,834           | 10,895,834                    |
| 2026-2030                    | 33,215,000           | 21,225,914          | 54,440,914                    |
| 2031-2035                    | 36,553,004           | 15,303,813          | 51,856,817                    |
| 2036-2040                    | 33,509,322           | 9,310,668           | 42,819,990                    |
| 2041-2045                    | <u>27,195,000</u>    | <u>2,540,000</u>    | <u>29,735,000</u>             |
| Total                        | <u>\$157,942,326</u> | <u>\$75,342,163</u> | <u>\$233,284,489</u>          |

**NOTE 7. DEFEASED BONDS OUTSTANDING**

On November 20, 2019, the District issued \$7,230,000 (par value) in unlimited tax school building and refunding bonds (current interest bonds) with an interest rate of 3.00% to advance refund \$7,475,000 of unlimited tax school building and refunding bonds. The unlimited tax school building and refunding bonds were issued at a net premium of \$325,518, and, after paying issuance costs of \$149,482, the net proceeds were \$7,606,035. The net proceeds from the issuance of the unlimited school building and tax refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bond matures. The advance refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's long-term liabilities.

As a result of the advance refunding, the District decreased its total debt service requirements by \$2,134,529 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$1,753,635.

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 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. On June 30, 2020, \$45,255,000 of bonds outstanding are considered defeased.

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**NOTE 8. PROPERTY TAXES**

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code which established an appraisal district and an appraisal review board in each county in the State of Texas. Collin County Appraisal District (CCAD) is responsible for the appraisal of property for all taxing units in Collin County, including the District. Under the terms of a contract for appraisal services, the District paid CCAD \$298,385 in fiscal year 2020 for appraising property.

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. CCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the CCAD Review Board through various appeals and, if necessary, legal action. 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 \$2,792,293,047. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges at the rate of 1.5% per month of delinquency, plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2020, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.06835 and \$0.50 per \$100 valuation, respectively, for a total of \$1.56835 per \$ 100 valuation.

Current tax collections for the year ended June 30, 2020 were 98.61% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2020, property taxes receivable, net of estimated uncollectible taxes, totaled \$430,922 and \$202,109 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 become available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Taxes not expected to be collected within sixty days of the fiscal year ending are recorded as unavailable revenues and are recognized when they become available. Taxes collected prior to the levy date to which they apply are recorded as unavailable revenues and recognized as revenue of the period to which they apply.

**NOTE 9. DEFINED BENEFIT PENSION PLAN**

*Plan Description.* Lovejoy 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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
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**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.

**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 86<sup>th</sup> 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 13<sup>th</sup> 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 86<sup>th</sup> 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%        |
| Lovejoy ISD FY2020 Employer Contributions       | \$                        | 1,011,493   |
| Lovejoy ISD FY2020 Member Contributions         | \$                        | 2,562,333   |
| Lovejoy ISD FY2020 NECE On-Behalf Contributions | \$                        | 1,522,650   |

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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).

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.

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**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.

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<br>Target<br>Allocation <sup>1</sup> | New Target<br>Allocation <sup>2</sup> | Long-Term Expected<br>Geometric Real Rate of<br>Return <sup>3</sup> |
|--|---|---------------------------------------|---|
| <b>Global Equity</b>                       |   |                                       |   |
| 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%  |
| <b>Stable Value</b>                        |   |                                       |   |
| U.S. Treasuries                            | 11%   | 16%                                   | 3.1%  |
| Absolute Return                            | -   | -                                     | -   |
| Stable Value Hedge Funds                   | 4%  | 5%                                    | 4.5%  |
| <b>Real Return</b>                         |   |                                       |   |
| Global Inflation Linked Bonds <sup>4</sup> | 3%  | -                                     | -   |
| Real Estate                                | 14%   | 15%                                   | 8.5%  |
| Energy, Natural Resources & Infrastructure | 5%  | 6%                                    | 7.3%  |
| Commodities                                | -   | -                                     | -   |
| <b>Risk Parity</b>                         |   |                                       |   |
| Risk Parity                                | 5%  | 8%                                    | 5.8%/6.5% <sup>5</sup>  |
| <b>Leverage</b>                            |   |                                       |   |
| Cash                                       | 1%  | 2%                                    | 2.5%  |
| Asset Allocation Leverage                  | -   | -6%                                   | 2.7%  |
| <b>Total</b>                               | <u>100%</u>                                 | <u>100%</u>                           | <u>7.23%</u>  |

<sup>1</sup> Target allocations are based on the Strategic Asset Allocation as of FY2019

<sup>2</sup> New allocations are based on the Strategic Asset Allocation to be implemented FY2020

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

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

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

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**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<br>Discount Rate<br>(6.25%) | Discount Rate<br>(7.25%) | 1% Increase in<br>Discount Rate<br>(8.25%) |
|---|--|--------------------------|--|
| Lovejoy ISD's proportionate share of the net pension liability: | \$23,685,993                               | \$15,409,080             | \$8,703,181                                |

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2020, Lovejoy Independent School District reported a liability of \$15,409,080 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Lovejoy Independent School District. The amount recognized by Lovejoy 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 Lovejoy Independent School District were as follows:

|  |                     |
|--|---------------------|
| District's Proportionate share of the collective net pension liability | \$15,409,080        |
| State's proportionate share that is associated with the District       | <u>22,615,060</u>   |
| Total  | <u>\$38,024,140</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 0.0296424650%, an increase of 1.99% from its proportionate share of 0.0290635063% 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 13<sup>th</sup> 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 June 30, 2020, Lovejoy Independent School District recognized pension expense of \$3,552,507 and revenue of \$3,552,507 for support provided by the State.



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At June 30, 2020, Lovejoy 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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience  | \$ 64,732                            | \$ 535,028                          |
| Changes in actuarial assumptions   | 4,780,653                            | 1,975,592                           |
| Difference between projected and actual investment earnings  | 926,399                              | 771,674                             |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 1,511,578                            | 204                                 |
| Contributions paid to TRS subsequent to the measurement date   | 853,657                              | -                                   |
| Total  | \$8,137,019                          | \$3,282,498                         |

\$853,657 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 June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | Pension Expense Amount |
|---------------------|------------------------|
| 2021                | \$ 1,001,227           |
| 2022                | 825,130                |
| 2023                | 1,018,877              |
| 2024                | 948,498                |
| 2025                | 336,566                |
| Thereafter          | (129,434)              |

**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.

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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:

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

\* or surviving spouse

**Contributions.** Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and 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>      |
| <b>Active Employee</b>                               | <b>0.65%</b>              | <b>0.65%</b>     |
| <b>Non-Employer Contributing Entity (State)</b>      | <b>1.25%</b>              | <b>1.25%</b>     |
| <b>Employers</b>                                     | <b>0.75%</b>              | <b>0.75%</b>     |
| <b>Federal/private Funding remitted by Employers</b> | <b>1.25%</b>              | <b>1.25%</b>     |
| <br>   |                           |                  |
| <b>Lovejoy ISD FY20 Employer Contributions</b>       |                           | <b>\$259,408</b> |
| <b>Lovejoy ISD FY20 Member Contributions</b>         |                           | <b>\$216,300</b> |
| <b>Lovejoy ISD FY20 NECE On-behalf Contributions</b> |                           | <b>\$344,208</b> |

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<br>Discount Rate (1.63%) | Current Single Discount<br>Rate (2.63%) | 1% Increase in<br>Discount Rate (3.63%) |
|---|---|---|---|
| District's proportionate<br>share of the Net OPEB<br>Liability: | \$20,840,569                            | \$17,261,832                            | \$14,462,180                            |

**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<br>(7.5%) | Current Healthcare<br>Cost Trend Rate (8.5%) | 1% Increase<br>(9.5%) |
|---|-----------------------|--|-----------------------|
| District's proportionate<br>share of the Net OPEB<br>Liability: | \$14,081,598          | \$17,261,832                                 | \$21,521,888          |

**OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2020, the District reported a liability of \$17,261,832 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 | \$17,261,832        |
| State's proportionate share that is associated with the District    | <u>22,937,114</u>   |
| Total   | <u>\$40,198,946</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 0.0365011322%, an increase of 11.43% compared to the August 31, 2018 proportionate share of 0.0360884901%.

**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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 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 June 30, 2020, the District recognized OPEB expense of \$604,528 and revenue of \$604,528 for support provided by the State.

At June 30, 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<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience  | \$ 846,840                           | \$2,824,716                         |
| Changes in actuarial assumptions   | 958,760                              | 4,643,009                           |
| Difference between projected and actual investment earnings  | 2,240                                | 378                                 |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 1,080,067                            | -                                   |
| Contributions paid to TRS subsequent to the measurement date   | 217,837                              | -                                   |
| Total  | \$3,105,744                          | \$7,468,103                         |

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 June 30: | OPEB Expense Amount |
|---------------------|---------------------|
| 2021                | \$ (803,004)        |
| 2022                | (803,004)           |
| 2023                | (803,607)           |
| 2024                | (803,952)           |
| 2025                | (803,857)           |
| Thereafter          | (562,772)           |

**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. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended June 30, 2020, the contribution made on behalf of the District was \$226,935.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 12. WORKERS' COMPENSATION INSURANCE**

During the year ended June 30, 2020, Lovejoy ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2019, the Fund carries a discounted reserve of \$101,961,210 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended June 30, 2020, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**NOTE 13. HEALTH CARE COVERAGE**

During the year ended June 30, 2020, employees of the District were covered by a health insurance plan (the plan). The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents' health insurance coverage. All premiums were paid to a licensed insurer. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2020 and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Blue Cross Blue Shield are available for the year ended December 31, 2019, and are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

**NOTE 14. UNEMPLOYMENT COMPENSATION POOL**

During the year ended June 30, 2020, Lovejoy ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payments has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2019 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 15. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal, state and local governments as of June 30, 2020, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

| Fund            | Local<br>Entitlements | State<br>Entitlements | Federal<br>Grants | Total              |
|-----------------|-----------------------|-----------------------|-------------------|--------------------|
| General         | \$ -                  | \$ 936,160            | \$ -              | \$ 936,160         |
| Debt Service    | -                     | -                     | -                 | -                  |
| Special Revenue | -                     | 435,694               | 567,556           | 1,003,250          |
| Total           | <u>\$ -</u>           | <u>\$1,371,854</u>    | <u>\$567,556</u>  | <u>\$1,939,410</u> |

**NOTE 16. CONTINGENT LIABILITIES**

The Tax Reform Act of 1986 imposed regulations on tax-exempt bond issues. Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceeds investments which exceed bond issue stated interest rates. The exact amount of liability, if any, will not be known until as long as five years from the bond issuance date. At June 30, 2020, the estimated rebate liability on outstanding bond series was \$0.

**NOTE 17. LITIGATION AND CONTINGENCIES**

The District is a party to various legal actions none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such 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 Collin County 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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2020

**NOTE 18. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

|   | General<br>Fund     | Special<br>Revenue Fund | Debt<br>Service Fund | Capital<br>Projects Fund | Total               |
|---|---------------------|-------------------------|----------------------|--------------------------|---------------------|
| Property Taxes                                      | \$29,708,754        | \$ -                    | \$13,892,577         | \$ -                     | \$43,601,331        |
| Investment Income                                   | 158,672             | 6,536                   | 81,101               | 176,787                  | 423,096             |
| Food Sales  | -                   | 1,602,980               | -                    | -                        | 1,602,980           |
| Penalties, interest and other<br>tax related income | 148,959             | -                       | 74,178               | -                        | 223,137             |
| Co-curricular student activities                    | 220,764             | 1,289,940               | -                    | -                        | 1,510,704           |
| Tuition and fees                                    | 1,593,629           | 689,729                 | -                    | -                        | 2,283,358           |
| Gifts and bequests                                  | -                   | 602,966                 | -                    | -                        | 602,966             |
| Facilities rentals                                  | 52,325              | 8,526                   | -                    | -                        | 60,851              |
| Insurance recovery                                  | 8,812               | -                       | -                    | -                        | 8,812               |
| Other   | 102,980             | -                       | -                    | -                        | 102,980             |
| Total   | <u>\$31,994,895</u> | <u>\$4,200,677</u>      | <u>\$14,047,856</u>  | <u>\$ 176,787</u>        | <u>\$50,420,215</u> |

**NOTE 19. UNEARNED REVENUE**

Unearned revenue at year-end consisted of the following:

|                               | General<br>Fund  | Special<br>Revenue Fund | Debt<br>Service Fund | Total            |
|-------------------------------|------------------|-------------------------|----------------------|------------------|
| Season ticket sales           | \$ 67,400        | \$ -                    | \$ -                 | \$ 67,400        |
| Tuition                       | 39,000           | -                       | -                    | 39,000           |
| ESC20 SPED Support            | -                | 65,550                  | -                    | 65,550           |
| Advanced placement incentives | -                | 6,484                   | -                    | 6,484            |
| Ready to read                 | -                | 75                      | -                    | 75               |
|                               | <u>\$106,400</u> | <u>\$72,109</u>         | <u>\$ -</u>          | <u>\$178,509</u> |

**NOTE 20. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the 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 June 30, 2020.

**NOTE 21. SHARED SERVICE ARRANGEMENTS**

The District participates in a shared services arrangement which provides a regional day school for the deaf to several member districts, and also participates in a shared services arrangement for juvenile justice alternative education services with several 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 Lovejoy ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended June 30, 2020, the District incurred \$16,600 in costs in the regional day school for the deaf, and incurred no costs in the juvenile justice alternative education program.



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

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2020

|  | FY 2020<br>Plan Year 2019 | FY 2019<br>Plan Year 2018 | FY 2018<br>Plan Year 2017 |
|--|---------------------------|---------------------------|---------------------------|
| District's Proportion of the Net Pension Liability (Asset)   | 0.02964246%               | 0.02906351%               | 0.027638386%              |
| District's Proportionate Share of Net Pension Liability (Asset)  | \$ 15,409,080             | \$ 15,997,259             | \$ 8,837,267              |
| State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District              | 22,615,060                | 24,373,728                | 14,810,995                |
| Total  | <u>\$ 38,024,140</u>      | <u>\$ 40,370,987</u>      | <u>\$ 23,648,262</u>      |
| District's Covered Payroll   | \$ 32,938,136             | \$ 31,543,339             | \$ 30,403,395             |
| District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 46.78%                    | 50.72%                    | 29.07%                    |
| 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><br><u>Plan Year 2016</u> | <u>FY 2016</u><br><u>Plan Year 2015</u> | <u>FY 2015</u><br><u>Plan Year 2014</u> |
|---|---|---|
| 0.026201154%                            | 0.0268281%                              | 0.0181979%                              |
| \$ 9,901,027                            | \$ 9,483,376                            | \$ 4,860,911                            |
| 17,757,045                              | 16,465,674                              | 14,484,731                              |
| <u>\$ 27,658,072</u>                    | <u>\$ 25,949,050</u>                    | <u>\$ 19,345,642</u>                    |
| \$ 28,877,118                           | \$ 26,839,008                           | \$ 25,130,174                           |
| 34.29%                                  | 35.33%                                  | 19.34%                                  |
| 78.00%                                  | 78.43%                                  | 83.25%                                  |

LOVEJOY 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                                 | \$ 1,011,493  | \$ 1,037,838  | \$ 968,869    |
| Contribution in Relation to the Contractually Required Contribution | (1,011,493)   | (1,037,838)   | (968,869)     |
| Contribution Deficiency (Excess)                                    | \$ -          | \$ -          | \$ -          |
| District's Covered Payroll  | \$ 33,277,029 | \$ 32,658,470 | \$ 31,447,998 |
| Contributions as a Percentage of Covered Payroll                    | 3.04%         | 3.18%         | 3.08%         |

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          |
|----|------------|---------------|---------------|
| \$ | 900,035    | \$ 821,878    | \$ 735,270    |
|    | (900,035)  | (821,878)     | (735,270)     |
| \$ | -          | \$ -          | \$ -          |
| \$ | 30,159,743 | \$ 28,664,041 | \$ 26,839,008 |
|    | 2.98%      | 2.87%         | 2.74%         |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED JUNE 30, 2020

|   | FY 2020<br>Plan Year 2019 | FY 2019<br>Plan Year 2018 | FY 2018<br>Plan Year 2017 |
|---|---------------------------|---------------------------|---------------------------|
| District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits                    | 0.03650113%               | 0.03608849%               | 0.03431364%               |
| District's Proportionate Share of Net OPEB Liability (Asset)  | \$ 17,261,832             | \$ 18,019,313             | \$ 14,921,715             |
| State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District              | 22,937,114                | 28,166,916                | 24,917,669                |
| Total   | <u>\$ 40,198,946</u>      | <u>\$ 46,186,229</u>      | <u>\$ 39,839,384</u>      |
| District's Covered Payroll  | \$ 32,938,136             | \$ 31,543,339             | \$ 30,403,395             |
| District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll | 52.41%                    | 57.13%                    | 49.08%                    |
| 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.



LOVEJOY 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                                 | \$ 259,408    | \$ 255,675    | \$ 231,818    |
| Contribution in Relation to the Contractually Required Contribution | (259,408)     | (255,675)     | (231,818)     |
| Contribution Deficiency (Excess)                                    | \$ -          | \$ -          | \$ -          |
| District's Covered Payroll  | \$ 33,277,029 | \$ 32,658,470 | \$ 31,447,998 |
| Contributions as a Percentage of Covered Payroll                    | 0.78%         | 0.78%         | 0.74%         |

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.

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 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 13<sup>th</sup> 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.
- 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.

## COMBINING SCHEDULES

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2020

| Data<br>Control<br>Codes   | 211<br>ESEA I, A<br>Improving<br>Basic Program | 224<br>IDEA - Part B<br>Formula | 225<br>IDEA - Part B<br>Preschool | 240<br>National<br>Breakfast and<br>Lunch Program |                   |
|----------------------------|--|---------------------------------|-----------------------------------|---|-------------------|
| <b>ASSETS</b>              |  |                                 |                                   |   |                   |
| 1110                       | Cash and Cash Equivalents                      | \$ (3,926)                      | \$ (56,027)                       | \$ -  | \$ 278,068        |
| 1240                       | Due from Other Governments                     | 15,685                          | 113,935                           | -   | -                 |
| 1300                       | Inventories                                    | -                               | -                                 | -   | 16,240            |
| 1000                       | Total Assets                                   | <u>\$ 11,759</u>                | <u>\$ 57,908</u>                  | <u>\$ -</u>                                       | <u>\$ 294,308</u> |
| <b>LIABILITIES</b>         |  |                                 |                                   |   |                   |
| 2160                       | Accrued Wages Payable                          | \$ 10,178                       | \$ 51,245                         | \$ -  | \$ 90,154         |
| 2200                       | Accrued Expenditures                           | 1,581                           | 6,663                             | -   | 10,455            |
| 2300                       | Unearned Revenue                               | -                               | -                                 | -   | -                 |
| 2000                       | Total Liabilities                              | <u>11,759</u>                   | <u>57,908</u>                     | <u>-</u>  | <u>100,609</u>    |
| <b>FUND BALANCES</b>       |  |                                 |                                   |   |                   |
| Nonspendable Fund Balance: |  |                                 |                                   |   |                   |
| 3410                       | Inventories                                    | -                               | -                                 | -   | 16,240            |
| Restricted Fund Balance:   |  |                                 |                                   |   |                   |
| 3450                       | Federal or State Funds Grant Restriction       | -                               | -                                 | -   | 177,459           |
| Committed Fund Balance:    |  |                                 |                                   |   |                   |
| 3545                       | Other Committed Fund Balance                   | -                               | -                                 | -   | -                 |
| 3000                       | Total Fund Balances                            | <u>-</u>                        | <u>-</u>                          | <u>-</u>  | <u>193,699</u>    |
| 4000                       | Total Liabilities and Fund Balances            | <u>\$ 11,759</u>                | <u>\$ 57,908</u>                  | <u>\$ -</u>                                       | <u>\$ 294,308</u> |

| 255<br>ESEA II,A<br>Training and<br>Recruiting | 263<br>Title III, A<br>English Lang.<br>Acquisition | 266<br>ESSER -School<br>Emergency<br>Relief | 272<br>Medicaid<br>Admin. Claim<br>MAC | 289<br>ESEA<br>Title IV<br>Part A | 397<br>Advanced<br>Placement<br>Incentives | 410<br>State<br>Instructional<br>Materials | 427<br>ESC20 SPED<br>Support Grant |
|--|---|---|--|-----------------------------------|--|--|------------------------------------|
| \$ -   | \$ -  | \$ (73,339)                                 | \$ -                                   | \$ -                              | \$ 6,484                                   | \$ (435,694)                               | \$ 65,550                          |
| -  | -   | 73,339                                      | -                                      | -                                 | -  | 435,694                                    | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| <u>\$ -</u>                                    | <u>\$ -</u>   | <u>\$ -</u>                                 | <u>\$ -</u>                            | <u>\$ -</u>                       | <u>\$ 6,484</u>                            | <u>\$ -</u>                                | <u>\$ 65,550</u>                   |
| \$ -   | \$ -  | \$ -  | \$ -                                   | \$ -                              | \$ -                                       | \$ -                                       | \$ -                               |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | 6,484                                      | -  | 65,550                             |
| -  | -   | -   | -                                      | -                                 | 6,484                                      | -  | 65,550                             |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| <u>\$ -</u>                                    | <u>\$ -</u>   | <u>\$ -</u>                                 | <u>\$ -</u>                            | <u>\$ -</u>                       | <u>\$ 6,484</u>                            | <u>\$ -</u>                                | <u>\$ 65,550</u>                   |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2020

| Data<br>Control<br>Codes                      | 428<br>School Safety<br>and<br>Security Grnt | 429<br>Ready<br>to Read | 461<br>Campus<br>Activity<br>Funds | 465<br>Grants/<br>Donations |
|---|--|-------------------------|------------------------------------|-----------------------------|
| <b>ASSETS</b>                                 |  |                         |                                    |                             |
| 1110 Cash and Cash Equivalents                | \$ -   | \$ 75                   | \$ 630,263                         | \$ (33,293)                 |
| 1240 Due from Other Governments               | -  | -                       | -                                  | 364,597                     |
| 1300 Inventories                              | -  | -                       | -                                  | -                           |
| 1000 Total Assets                             | <u>\$ -</u>                                  | <u>\$ 75</u>            | <u>\$ 630,263</u>                  | <u>\$ 331,304</u>           |
| <b>LIABILITIES</b>                            |  |                         |                                    |                             |
| 2160 Accrued Wages Payable                    | \$ -   | \$ -                    | \$ 2,246                           | \$ -                        |
| 2200 Accrued Expenditures                     | -  | -                       | 64                                 | -                           |
| 2300 Unearned Revenue                         | -  | 75                      | -                                  | -                           |
| 2000 Total Liabilities                        | <u>-</u>                                     | <u>75</u>               | <u>2,310</u>                       | <u>-</u>                    |
| <b>FUND BALANCES</b>                          |  |                         |                                    |                             |
| Nonspendable Fund Balance:                    |  |                         |                                    |                             |
| 3410 Inventories                              | -  | -                       | -                                  | -                           |
| Restricted Fund Balance:                      |  |                         |                                    |                             |
| 3450 Federal or State Funds Grant Restriction | -  | -                       | -                                  | -                           |
| Committed Fund Balance:                       |  |                         |                                    |                             |
| 3545 Other Committed Fund Balance             | -  | -                       | 627,953                            | 331,304                     |
| 3000 Total Fund Balances                      | <u>-</u>                                     | <u>-</u>                | <u>627,953</u>                     | <u>331,304</u>              |
| 4000 Total Liabilities and Fund Balances      | <u>\$ -</u>                                  | <u>\$ 75</u>            | <u>\$ 630,263</u>                  | <u>\$ 331,304</u>           |

| 485<br>Learning at<br>Lovejoy | 495<br>School<br>Store | 497<br>Concessions<br>Operations | 498<br>Catering<br>Operations | 499<br>Kids First/<br>Daycare | Total<br>Nonmajor<br>Governmental<br>Funds |
|-------------------------------|------------------------|----------------------------------|-------------------------------|-------------------------------|--|
| \$ -                          | \$ (58,989)            | \$ 10,914                        | \$ 2,276                      | \$ 210,971                    | \$ 543,333                                 |
| -                             | -                      | -                                | -                             | -                             | 1,003,250                                  |
| -                             | 58,989                 | -                                | -                             | -                             | 75,229                                     |
| <u>\$ -</u>                   | <u>\$ -</u>            | <u>\$ 10,914</u>                 | <u>\$ 2,276</u>               | <u>\$ 210,971</u>             | <u>\$ 1,621,812</u>                        |
| \$ -                          | \$ -                   | \$ -                             | \$ -                          | \$ 62,849                     | \$ 216,672                                 |
| -                             | -                      | -                                | -                             | 3,857                         | 22,620                                     |
| -                             | -                      | -                                | -                             | -                             | 72,109                                     |
| <u>-</u>                      | <u>-</u>               | <u>-</u>                         | <u>-</u>                      | <u>66,706</u>                 | <u>311,401</u>                             |
| -                             | -                      | -                                | -                             | -                             | 16,240                                     |
| -                             | -                      | -                                | -                             | -                             | 177,459                                    |
| -                             | -                      | 10,914                           | 2,276                         | 144,265                       | 1,116,712                                  |
| <u>-</u>                      | <u>-</u>               | <u>10,914</u>                    | <u>2,276</u>                  | <u>144,265</u>                | <u>1,310,411</u>                           |
| <u>\$ -</u>                   | <u>\$ -</u>            | <u>\$ 10,914</u>                 | <u>\$ 2,276</u>               | <u>\$ 210,971</u>             | <u>\$ 1,621,812</u>                        |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2020

| Data<br>Control<br>Codes                                       | 211<br>ESEA I, A<br>Improving<br>Basic Program | 224<br>IDEA - Part B<br>Formula | 225<br>IDEA - Part B<br>Preschool | 240<br>National<br>Breakfast and<br>Lunch Program |
|--|--|---------------------------------|-----------------------------------|---|
| <b>REVENUES:</b>   |  |                                 |                                   |   |
| 5700 Total Local and Intermediate Sources                      | \$ -   | \$ -                            | \$ -                              | \$ 1,370,978                                      |
| 5800 State Program Revenues                                    | -  | -                               | -                                 | 77,272  |
| 5900 Federal Program Revenues                                  | 108,476  | 515,461                         | 5,892                             | 110,377   |
| 5020 Total Revenues  | 108,476  | 515,461                         | 5,892                             | 1,558,627   |
| <b>EXPENDITURES:</b>   |  |                                 |                                   |   |
| Current:   |  |                                 |                                   |   |
| 0011 Instruction   | 107,883  | 412,344                         | 5,892                             | -   |
| 0012 Instructional Resources and Media Services                | -  | -                               | -                                 | -   |
| 0013 Curriculum and Instructional Staff Development            | 593  | -                               | -                                 | -   |
| 0021 Instructional Leadership                                  | -  | 39,013                          | -                                 | -   |
| 0023 School Leadership   | -  | -                               | -                                 | -   |
| 0031 Guidance, Counseling, and Evaluation Services             | -  | 64,104                          | -                                 | -   |
| 0034 Student (Pupil) Transportation                            | -  | -                               | -                                 | -   |
| 0035 Food Services   | -  | -                               | -                                 | 1,747,051   |
| 0036 Extracurricular Activities                                | -  | -                               | -                                 | -   |
| 0041 General Administration                                    | -  | -                               | -                                 | -   |
| 0052 Security and Monitoring Services                          | -  | -                               | -                                 | -   |
| 0061 Community Services  | -  | -                               | -                                 | -   |
| 6030 Total Expenditures  | 108,476  | 515,461                         | 5,892                             | 1,747,051   |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | -  | -                               | -                                 | (188,424)   |
| <b>OTHER FINANCING SOURCES (USES):</b>                         |  |                                 |                                   |   |
| 7915 Transfers In  | -  | -                               | -                                 | -   |
| 8911 Transfers Out (Use)                                       | -  | -                               | -                                 | -   |
| 7080 Total Other Financing Sources (Uses)                      | -  | -                               | -                                 | -   |
| 1200 Net Change in Fund Balance                                | -  | -                               | -                                 | (188,424)   |
| 0100 Fund Balance - July 1 (Beginning)                         | -  | -                               | -                                 | 382,123   |
| 3000 Fund Balance - June 30 (Ending)                           | \$ -   | \$ -                            | \$ -                              | \$ 193,699  |



| 255<br>ESEA II,A<br>Training and<br>Recruiting | 263<br>Title III, A<br>English Lang.<br>Acquisition | 266<br>ESSER -School<br>Emergency<br>Relief | 272<br>Medicaid<br>Admin. Claim<br>MAC | 289<br>ESEA<br>Title IV<br>Part A | 397<br>Advanced<br>Placement<br>Incentives | 410<br>State<br>Instructional<br>Materials | 427<br>ESC20 SPED<br>Support Grant |
|--|---|---|--|-----------------------------------|--|--|------------------------------------|
| \$ -   | \$ -  | \$ -  | \$ -                                   | \$ -                              | \$ -                                       | \$ -                                       | \$ -                               |
| -  | -   | -   | -                                      | -                                 | -  | 530,159                                    | -                                  |
| 33,265   | 657   | 73,339                                      | 4,865                                  | 22,717                            | -  | -  | -                                  |
| 33,265   | 657   | 73,339                                      | 4,865                                  | 22,717                            | -  | 530,159                                    | -                                  |
| -  | 219   | -   | -                                      | 1,385                             | -  | 530,159                                    | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| 33,265   | 438   | -   | -                                      | 21,332                            | -  | -  | -                                  |
| -  | -   | -   | 4,865                                  | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | 73,339                                      | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| 33,265   | 657   | 73,339                                      | 4,865                                  | 22,717                            | -  | 530,159                                    | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| -  | -   | -   | -                                      | -                                 | -  | -  | -                                  |
| \$ -   | \$ -  | \$ -  | \$ -                                   | \$ -                              | \$ -                                       | \$ -                                       | \$ -                               |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2020

| Data<br>Control<br>Codes  | 428<br>School Safety<br>and<br>Security Grnt | 429<br>Ready<br>to Read | 461<br>Campus<br>Activity<br>Funds | 465<br>Grants/<br>Donations |
|---|--|-------------------------|------------------------------------|-----------------------------|
| <b>REVENUES:</b>  |  |                         |                                    |                             |
| 5700 Total Local and Intermediate Sources                         | \$ -   | \$ -                    | \$ 1,289,940                       | \$ 602,966                  |
| 5800 State Program Revenues                                       | 69,125                                       | -                       | -                                  | -                           |
| 5900 Federal Program Revenues                                     | -  | -                       | -                                  | 548,715                     |
| 5020 Total Revenues   | 69,125                                       | -                       | 1,289,940                          | 1,151,681                   |
| <b>EXPENDITURES:</b>  |  |                         |                                    |                             |
| Current:  |  |                         |                                    |                             |
| 0011 Instruction  | -  | -                       | 48,956                             | 124,415                     |
| 0012 Instructional Resources and Media Services                   | -  | -                       | -                                  | 652                         |
| 0013 Curriculum and Instructional Staff Development               | -  | -                       | -                                  | 1,206                       |
| 0021 Instructional Leadership                                     | -  | -                       | -                                  | -                           |
| 0023 School Leadership  | -  | -                       | 20,732                             | -                           |
| 0031 Guidance, Counseling, and Evaluation Services                | -  | -                       | 37,000                             | 87,558                      |
| 0034 Student (Pupil) Transportation                               | -  | -                       | -                                  | -                           |
| 0035 Food Services  | -  | -                       | -                                  | -                           |
| 0036 Extracurricular Activities                                   | -  | -                       | 1,232,188                          | 217,883                     |
| 0041 General Administration                                       | -  | -                       | -                                  | 74,297                      |
| 0052 Security and Monitoring Services                             | 69,125                                       | -                       | -                                  | 456,157                     |
| 0061 Community Services   | -  | -                       | -                                  | (1,495)                     |
| 6030 Total Expenditures   | 69,125                                       | -                       | 1,338,876                          | 960,673                     |
| 1100 Excess (Deficiency) of Revenues Over (Under)<br>Expenditures | -  | -                       | (48,936)                           | 191,008                     |
| <b>OTHER FINANCING SOURCES (USES):</b>                            |  |                         |                                    |                             |
| 7915 Transfers In   | -  | -                       | -                                  | -                           |
| 8911 Transfers Out (Use)  | -  | -                       | -                                  | -                           |
| 7080 Total Other Financing Sources (Uses)                         | -  | -                       | -                                  | -                           |
| 1200 Net Change in Fund Balance                                   | -  | -                       | (48,936)                           | 191,008                     |
| 0100 Fund Balance - July 1 (Beginning)                            | -  | -                       | 676,889                            | 140,296                     |
| 3000 Fund Balance - June 30 (Ending)                              | \$ -   | \$ -                    | \$ 627,953                         | \$ 331,304                  |

| 485<br>Learning at<br>Lovejoy | 495<br>School<br>Store | 497<br>Concessions<br>Operations | 498<br>Catering<br>Operations | 499<br>Kids First/<br>Daycare | Total<br>Nonmajor<br>Governmental<br>Funds |
|-------------------------------|------------------------|----------------------------------|-------------------------------|-------------------------------|--|
| \$ 11,886                     | \$ 148,126             | \$ 89,812                        | \$ 601                        | \$ 686,368                    | 4,200,677                                  |
| -                             | -                      | -                                | -                             | -                             | 676,556                                    |
| -                             | -                      | -                                | -                             | -                             | 1,423,764                                  |
| 11,886                        | 148,126                | 89,812                           | 601                           | 686,368                       | 6,300,997                                  |
| -                             | -                      | -                                | -                             | -                             | 1,231,253                                  |
| -                             | -                      | -                                | -                             | -                             | 652  |
| -                             | -                      | -                                | -                             | -                             | 56,834                                     |
| -                             | -                      | -                                | -                             | -                             | 43,878                                     |
| -                             | -                      | -                                | -                             | -                             | 20,732                                     |
| -                             | -                      | -                                | -                             | -                             | 188,662                                    |
| -                             | -                      | -                                | -                             | -                             | 73,339                                     |
| -                             | -                      | 87,000                           | 541                           | -                             | 1,834,592                                  |
| 122,811                       | 122,212                | -                                | -                             | -                             | 1,695,094                                  |
| -                             | -                      | -                                | -                             | -                             | 74,297                                     |
| -                             | -                      | -                                | -                             | -                             | 525,282                                    |
| -                             | -                      | -                                | -                             | 784,411                       | 782,916                                    |
| 122,811                       | 122,212                | 87,000                           | 541                           | 784,411                       | 6,527,531                                  |
| (110,925)                     | 25,914                 | 2,812                            | 60                            | (98,043)                      | (226,534)                                  |
| 110,925                       | -                      | -                                | -                             | -                             | 110,925                                    |
| -                             | (160,893)              | -                                | -                             | -                             | (160,893)                                  |
| 110,925                       | (160,893)              | -                                | -                             | -                             | (49,968)                                   |
| -                             | (134,979)              | 2,812                            | 60                            | (98,043)                      | (276,502)                                  |
| -                             | 134,979                | 8,102                            | 2,216                         | 242,308                       | 1,586,913                                  |
| \$ -                          | \$ -                   | \$ 10,914                        | \$ 2,276                      | \$ 144,265                    | 1,310,411                                  |

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REQUIRED T.E.A. SCHEDULES

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED JUNE 30, 2020

| Last 10 Years                  | (1)         | (2)          | (3)  |
|--------------------------------|-------------|--------------|--|
|                                | Tax Rates   |              | Assessed/Appraised<br>Value for School<br>Tax Purposes |
|                                | Maintenance | Debt Service |  |
| 2011 and prior years           | Various     | Various      | \$ Various   |
| 2012                           | 1.060000    | 0.475000     | 1,491,287,818  |
| 2013                           | 1.060000    | 0.475000     | 1,548,565,472  |
| 2014                           | 1.060000    | 0.475000     | 1,670,693,029  |
| 2015                           | 1.060000    | 0.500000     | 1,837,430,448  |
| 2016                           | 1.060000    | 0.500000     | 1,974,616,410  |
| 2017                           | 1.170000    | 0.500000     | 2,155,176,826  |
| 2018                           | 1.170000    | 0.500000     | 2,373,340,778  |
| 2019                           | 1.170000    | 0.500000     | 2,590,912,275  |
| 2020 (School year under audit) | 1.068350    | 0.500000     | 2,792,293,047  |
| 1000 TOTALS                    |             |              |  |

| (10)<br>Beginning<br>Balance<br>7/1/2019 | (20)<br>Current<br>Year's<br>Total Levy | (31)<br>Maintenance<br>Collections | (32)<br>Debt Service<br>Collections | (40)<br>Entire<br>Year's<br>Adjustments | (50)<br>Ending<br>Balance<br>6/30/2020 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 24,247                                | \$ -                                    | \$ -                               | \$ -                                | \$ (2,592)                              | \$ 21,655                              |
| 5,993                                    | -                                       | -                                  | -                                   | -                                       | 5,993                                  |
| 7,338                                    | -                                       | -                                  | -                                   | -                                       | 7,338                                  |
| 22,699                                   | -                                       | -                                  | -                                   | -                                       | 22,699                                 |
| 37,531                                   | -                                       | 4,730                              | 2,231                               | 668                                     | 31,238                                 |
| 67,586                                   | -                                       | 4,603                              | 2,171                               | 669                                     | 61,481                                 |
| 83,174                                   | -                                       | 11,605                             | 4,960                               | 718                                     | 67,327                                 |
| 95,128                                   | -                                       | 2,964                              | 1,267                               | (9,212)                                 | 81,685                                 |
| 536,890                                  | -                                       | 268,100                            | 114,573                             | (46,613)                                | 107,604                                |
| -  | 43,792,928                              | 29,416,752                         | 13,767,375                          | -                                       | 608,801                                |
| <u>\$ 880,586</u>                        | <u>\$ 43,792,928</u>                    | <u>\$ 29,708,754</u>               | <u>\$ 13,892,577</u>                | <u>\$ (56,362)</u>                      | <u>\$ 1,015,821</u>                    |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED JUNE 30, 2020

| Data<br>Control<br>Codes                  | Budgeted Amounts |              | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|------------------|--------------|--------------------------------|--|
|   | Original         | Final        |                                |  |
| <b>REVENUES:</b>                          |                  |              |                                |  |
| 5700 Total Local and Intermediate Sources | \$ 1,750,000     | \$ 1,750,000 | \$ 1,370,978                   | \$ (379,022)   |
| 5800 State Program Revenues               | 60,000           | 60,000       | 77,272                         | 17,272   |
| 5900 Federal Program Revenues             | 225,000          | 225,000      | 110,377                        | (114,623)  |
| 5020 Total Revenues                       | 2,035,000        | 2,035,000    | 1,558,627                      | (476,373)  |
| <b>EXPENDITURES:</b>                      |                  |              |                                |  |
| Current:                                  |                  |              |                                |  |
| 0035 Food Services                        | 2,135,000        | 2,035,000    | 1,747,051                      | 287,949  |
| 6030 Total Expenditures                   | 2,135,000        | 2,035,000    | 1,747,051                      | 287,949  |
| 1200 Net Change in Fund Balances          | (100,000)        | -            | (188,424)                      | (188,424)  |
| 0100 Fund Balance - July 1 (Beginning)    | 382,123          | 382,123      | 382,123                        | -  |
| 3000 Fund Balance - June 30 (Ending)      | \$ 282,123       | \$ 382,123   | \$ 193,699                     | \$ (188,424)   |



LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 2020

| Data Control Codes                            | Budgeted Amounts |               | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|---------------|-----------------------------|---|
|   | Original         | Final         |                             |   |
| <b>REVENUES:</b>                              |                  |               |                             |   |
| 5700 Total Local and Intermediate Sources     | \$ 13,794,735    | \$ 14,329,735 | \$ 14,047,856               | \$ (281,879)                                      |
| 5800 State Program Revenues                   | 170,265          | 170,265       | 161,408                     | (8,857)   |
| 5020 Total Revenues                           | 13,965,000       | 14,500,000    | 14,209,264                  | (290,736)   |
| <b>EXPENDITURES:</b>                          |                  |               |                             |   |
| Debt Service:                                 |                  |               |                             |   |
| 0071 Principal on Long-Term Debt              | 7,710,000        | 7,742,909     | 7,917,908                   | (174,999)   |
| 0072 Interest on Long-Term Debt               | 6,100,000        | 6,205,834     | 6,118,676                   | 87,158  |
| 0073 Bond Issuance Cost and Fees              | 155,000          | 551,257       | 154,946                     | 396,311   |
| 6030 Total Expenditures                       | 13,965,000       | 14,500,000    | 14,191,530                  | 308,470   |
| 1100 Excess of Revenues Over Expenditures     | -                | -             | 17,734                      | 17,734  |
| <b>OTHER FINANCING SOURCES (USES):</b>        |                  |               |                             |   |
| 7911 Capital Related Debt Issued              | -                | -             | 7,230,000                   | 7,230,000   |
| 7916 Premium or Discount on Issuance of Bonds | -                | -             | 325,518                     | 325,518   |
| 8949 Other (Uses)                             | -                | -             | (7,606,035)                 | (7,606,035)                                       |
| 7080 Total Other Financing Sources (Uses)     | -                | -             | (50,517)                    | (50,517)  |
| 1200 Net Change in Fund Balances              | -                | -             | (32,783)                    | (32,783)  |
| 0100 Fund Balance - July 1 (Beginning)        | 5,557,329        | 5,557,329     | 5,557,329                   | -   |
| 3000 Fund Balance - June 30 (Ending)          | \$ 5,557,329     | \$ 5,557,329  | \$ 5,524,546                | \$ (32,783)                                       |

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FEDERAL AWARDS SECTION

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

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CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST  
P.O. BOX 977  
DENTON, TX 76202-0977

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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  
Lovejoy Independent School District  
Allen, Texas 75002

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 Lovejoy Independent School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lovejoy Independent School District's basic financial statements, and have issued our report dated October 17, 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

October 17, 2020

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

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

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CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees  
Lovejoy Independent School District  
Allen, Texas 75002

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

We have audited Lovejoy Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lovejoy Independent School District's major federal programs for the year ended June 30, 2020. Lovejoy Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of finding and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

***Opinion on Each Major Federal Program***

In our opinion, Lovejoy Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control Over Compliance

Management of Lovejoy Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lovejoy Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lovejoy Independent School District's internal control over compliance.

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

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

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



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

October 17, 2020



LOVEJOY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2020

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unmodified.
2. Internal control over financial reporting:  
Material weakness(es) identified: None  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
3. Noncompliance which is material to the financial statements: None
4. Internal controls over major federal programs:  
Material weakness(es) identified: None  
Significant deficiency(ies) identified that are not considered to be material weaknesses: None reported
5. Type of auditor's report on compliance for major federal programs: Unmodified.
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)?: No
7. Major programs include:  
IDEA-B Cluster:  
CFDA 84.027 IDEA, Part B, Formula  
  
CFDA 84.425D ESSER-School Emergency Relief
8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.
9. Low risk auditee: No

II. Findings Related to the Financial Statements

None

III. Other Findings

None

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2020

NONE

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2020

| (1)   | (2)                       | (3)  | (4)                     |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/<br>PROGRAM or CLUSTER TITLE | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                   |                           |  |                         |
| <u>Direct Programs</u>  |                           |  |                         |
| Impact Aid - P.L. 81.874 (Note A)                                     | 84.041                    |  | \$ 956                  |
| Total Direct Programs   |                           |  | 956                     |
| <u>Passed Through State Department of Education</u>                   |                           |  |                         |
| ESEA, Title I, Part A - Improving Basic Programs                      | 84.010A                   | 19610101043919                               | 12,114                  |
| ESEA, Title I, Part A - Improving Basic Programs                      | 84.010A                   | 20610101043919                               | 96,362                  |
| Total CFDA Number 84.010A   |                           |  | 108,476                 |
| *IDEA - Part B, Formula   | 84.027                    | 186600010439196600                           | 12,133                  |
| *IDEA - Part B, Formula   | 84.027                    | 196600010439196600                           | 58,224                  |
| *IDEA - Part B, Formula   | 84.027                    | 206600010439196600                           | 445,104                 |
| Total CFDA Number 84.027  |                           |  | 515,461                 |
| *IDEA - Part B, Preschool   | 84.173                    | 186610010439196610                           | 1,337                   |
| *IDEA - Part B, Preschool   | 84.173                    | 196610010439196610                           | 4,555                   |
| Total CFDA Number 84.173  |                           |  | 5,892                   |
| Total Special Education Cluster (IDEA)                                |                           |  | 521,353                 |
| Title III, Part A - English Language Acquisition                      | 84.365A                   | 19671001043919                               | 657                     |
| ESEA, Title II, Part A, Teacher Principal Training                    | 84.367A                   | 19694501043919                               | 33,265                  |
| ESEA, Title IV, Part A  | 84.424A                   | 19680101043919                               | 12,917                  |
| ESEA, Title IV, Part A  | 84.424A                   | 20680101043919                               | 9,800                   |
| Total CFDA Number 84.424A   |                           |  | 22,717                  |
| ESSER - Emergency Relief Fund   | 84.425D                   | 043919                                       | 73,339                  |
| Total Passed Through State Department of Education                    |                           |  | 759,807                 |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>                             |                           |  | 760,763                 |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                   |                           |  |                         |
| <u>Direct Programs</u>  |                           |  |                         |
| Medicaid Administrative Claiming Program - MAC                        | 93.778                    | 01-043919                                    | 4,865                   |
| Total Direct Programs   |                           |  | 4,865                   |
| <b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>             |                           |  | 4,865                   |
| <b>U.S. DEPARTMENT OF JUSTICE</b>                                     |                           |  |                         |
| <u>Direct Programs</u>  |                           |  |                         |
| STOP School Violence  | 16.839                    | 2018-YS-BX-0149                              | 39,615                  |
| STOP School Violence  | 16.839                    | 2018-YS-BX-0108                              | 47,943                  |
| Total CFDA Number 16.839  |                           |  | 87,558                  |
| Total Direct Programs   |                           |  | 87,558                  |
| <u>Passed Through Town of Fairview</u>                                |                           |  |                         |
| COPS Office STOP School Violence                                      | 16.710                    | 2018-SV-WX-0086                              | 461,157                 |
| Total Passed Through Town of Fairview                                 |                           |  | 461,157                 |
| <b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>                               |                           |  | 548,715                 |

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2020

| (1)   | (2)                       | (3)  | (4)                     |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/<br>PROGRAM or CLUSTER TITLE | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                 |                           |  |                         |
| <u>Passed Through the State Department of Agriculture</u>             |                           |  |                         |
| *National School Lunch Program - Cash Assistance                      | 10.555                    | 713018                                       | 62,009                  |
| *National School Lunch Prog. - Non-Cash Assistance                    | 10.555                    | 713018                                       | 48,368                  |
| Total CFDA Number 10.555  |                           |  | <u>110,377</u>          |
| Total Child Nutrition Cluster   |                           |  | <u>110,377</u>          |
| Total Passed Through the State Department of Agriculture              |                           |  | <u>110,377</u>          |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>                           |                           |  | <u>110,377</u>          |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                           |                           |  | <u>\$ 1,424,720</u>     |

\*Clustered Programs

LOVEJOY INDEPENDENT SCHOOL DISTRICT  
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2020

1. The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

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

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

3. The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying combined financial statements for such contingencies.
4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in the Uniform Guidance.
5. During the current year, the District received the following funds which are not included in the Schedule of Expenditures of Federal Awards.

|   |                    |
|---|--------------------|
| Total Expenditures of Federal Awards      | \$1,424,720        |
| Medicaid Reimbursement (SHARS)            | <u>257,692</u>     |
| Federal Revenues per Financial Statements | <u>\$1,682,412</u> |

Financial Advisory Services  
Provided By:

