OFFICIAL STATEMENT
Dated February 18, 2020

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATING: S&P - "AAA"/"A+"
PSF Guaranteed
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein)

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

$10,190,000
COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Brazoria County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

Dated Date: March 1, 2020 **Due: February 1, as shown on page -ii- herein**

The "Columbia-Brazoria Independent School District Unlimited Tax School Building Bonds, Series 2020" (the "Bonds"), as shown on page -ii- herein, are direct obligations of the Columbia-Brazoria Independent School District (the "District") and are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 5, 2019 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on February 18, 2020.

Interest on the Bonds will accrue from March 1, 2020 (the "Dated Date"), will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing August 1, 2020, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of $5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued 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, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, Houston, Texas, 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" herein.

Proceeds from the sale of the Bonds will be used (i) for the purpose of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities with respect to any of the foregoing), with priority given to new construction of a 6th grade addition at West Brazos Junior High, and (ii) to pay for professional services associated with the costs of issuance of the Bonds. See "SOURCES AND USES OF FUNDS" herein.

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

For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel, Kassahn & Ortiz, P.C., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about March 19, 2020.

RAYMOND JAMES

STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS

$10,190,000
COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Brazoria County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

CUSIP No. Prefix 197270[(1)]

Stated Maturity February 1	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix[(1)]
2021	50,000.00	3.000	0.940	PH8
2022	50,000.00	3.000	0.970	PJ4
2023	135,000.00	3.000	1.020	PK1
2024	175,000.00	3.000	1.040	PL9
2025	200,000.00	3.000	1.060	PM7
2026	525,000.00	3.000	1.110	PN5
2027	75,000.00	3.000	1.190	PP0
2028	75,000.00	3.000	1.290	PQ8
2029	75,000.00	4.000	1.420[(2)]	PR6
2030	750,000.00	4.000	1.520[(2)]	PS4
2031	10,000.00	4.000	1.650[(2)]	PT2
2032	75,000.00	4.000	1.700[(2)]	PU9
2033	75,000.00	4.000	1.770[(2)]	PV7
2034	75,000.00	4.000	1.830[(2)]	PW5
2035	1,060,000.00	4.000	1.790[(2)]	PX3
2036	1,085,000.00	4.000	1.860[(2)]	PY1
2037	1,075,000.00	4.000	1.890[(2)]	PZ8
2038	1,095,000.00	4.000	1.930[(2)]	QA2
2039	1,740,000.00	4.000	1.970[(2)]	QB0
2040	1,790,000.00	4.000	1.980[(2)]	QC8

(Accrued Interest to be added from the Dated Date)

Redemption Provisions

The District reserves the right to redeem the Bonds maturing on and after February 1, 2029 in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 1, 2028 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. (See “THE BONDS - Redemption Provisions of the Bonds” herein.)

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(1) 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. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 1, 2028, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
520 S. 16th Street
West Columbia, Texas 77486

BOARD OF TRUSTEES

Name	Position	Years Served	Term Expires May	Occupation
Jonathan Champagne	President	15	2022	Controller - Telephone Company
Becky Danford	Vice President	10	2021	Inspector
Linda Huebner	Secretary	14	2020	Writer
Matt Damborsky	Trustee	4	2021	Real Estate
Ray Sisson	Trustee	1st	2022	Self-Employed
Nick Kondra	Trustee	6	2020	Financial Advisor
Jackie Gotcher	Trustee	2	2020	Self-Employed

ADMINISTRATION - FINANCE CONNECTED

Name	Title	Total Years Experience	Total Years With District
Steven Galloway	Superintendent of Schools	27	16
Jason Tracy	Director of Business Services	21	3

CONSULTANTS AND ADVISORS

Kennemer, Masters & Lunsford, LLC Lake Jackson, Texas	Certified Public Accountants
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the District to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THIS ISSUE 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, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding (i) DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC, and (ii) the Texas Permanent School Fund Guarantee Program described in the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by the Texas Education Agency.

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 THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE DISTRICT	The Columbia-Brazoria Independent School District (the "District") is located in Brazoria County, Texas. The District is approximately 248.29 square miles in area and serves a population of approximately 21,351. The District was created under State statute and is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS............................	The Bonds mature on February 1 in each of the years 2021 through 2040, inclusive. Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable semi-annually on February 1 and August 1, commencing on August 1, 2020, until stated maturity or prior redemption.
DATED DATE	March 1, 2020.
REDEMPTION	The District reserves the right to redeem the Bonds maturing on and after February 1, 2029, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 1, 2028 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, 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. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
PERMANENT SCHOOL FUND GUARANTEE	The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas.
MUNICIPAL BOND RATING	S&P Global Ratings ("S&P") has assigned its enhanced municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A+" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The District does not anticipate the issuance of additional tax-supported debt in the next twelve months except for potentially issuing refunding obligations for debt service savings.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about March 19, 2020.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

OFFICIAL STATEMENT

relating to

$10,190,000
COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Brazoria County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020

INTRODUCTION

This Official Statement of Columbia-Brazoria Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's $10,190,000 Unlimited Tax School Building Bonds, Series 2020 (the "Bonds").

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 historical information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

THE BONDS

General Description

The Bonds are dated March 1, 2020 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing August 1, 2020, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar (identified herein) relating to the Bonds (the "Bond Register") on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 5, 2019 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on February 18, 2020.

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) are anticipated to represent the total amount of voted bonds (described below) approved at the Election. Following the issuance of the Bonds, the District anticipates that it will have no voted but unissued bonds as further described below. See "VALUATION AND DEBT DATA - Authorized but Unissued General Obligation Bonds" attached hereto as APPENDIX A.

A summary of the bonds authorized at said Election is as follows:

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
Designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities with respect to any of the foregoing), with priority given to new construction of a 6th grade addition at West Brazos Junior High.	$11,500.000	$-0-	$11,500.000*	$-0-

* *Includes the Bonds and a premium allocation of $1,310,000.*

Permanent School Fund Guarantee

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

Payment Record

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

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the bond certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated to occur on or about March 19, 2020.

Redemption Provisions of the Bonds

The District reserves the right to redeem the Bonds maturing on and after February 1, 2029, at the option of the District, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 1, 2028 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption.

Selection of Bonds for 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.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond 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 ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that 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, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

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

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order 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 registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States 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 and general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF FUNDS

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

Sources of Funds:	
Par Amount of Bonds	$10,190,000.00
Reoffering Premium on the Bonds	1,494,950.80
Accrued Interest	19,737.50
Total Sources	$11,704,688.30
Uses of Funds:	
Deposit to Construction Fund	$11,500,000.00
Deposit to Bond Fund (including accrued interest)	19,737.50
Underwriters' Discount	70,593.45
Costs of Issuance and Contingency	114,357.35
Total Uses	$11,704,688.30

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. The Bonds will be issued in fully registered form in multiples of $5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal of or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying

Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates 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 Bond 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 Bonds being transferred or exchanged at the designated 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. 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 kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and 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 in 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 evidence satisfactory to establish to the District and the Paying Agent/Registrar 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 bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company ("DTC"), New York, New York, 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 security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

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 the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Underwriters takes 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 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.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

The PSF was created with a $2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 2019, the General Land Office (the "GLO") managed approximately 26% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the "ASF"), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2019, distributions to the ASF amounted to an estimated $306 per student and the total amount distributed to the ASF was $1,535.8 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2019, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the 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, 2019 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2019 and for a description of the financial results of the PSF for the year ended August 31, 2019, the most recent year for which audited financial information regarding the Fund is available. The 2019 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2019 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the "Investment Policy"), monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. 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 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international large cap equities at 14%, emerging market equities at 3%, and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency), and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively. In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2019, the Fund's financial assets portfolio was invested as follows: 34.91% in public market equity investments; 13.35% in fixed income investments; 10.58% in absolute return assets; 11.31% in private equity assets; 8.71% in real estate assets; 7.46% in risk parity assets; 6.16% in real return assets; 7.03% in emerging market debt; and 0.49% in unallocated cash.

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

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. At August 31, 2019, the State Law Capacity increased from $118,511,255,268 on August 31, 2018 to $123,509,204,770 on August 31, 2019 (but at such date the IRS Limit was lower, $117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 27, 2019 (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 5.85%. As January 31, 2020, there were 183 active open-enrollment charter schools in the State and there were 788 charter school campuses operating under such charters (though as of such date, two of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. As of August 31, 2019, the amount of outstanding bond guarantees represented 71.94% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP

Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent 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 three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of December 31, 2019, the Charter District Reserve Fund contained $35,096,557, which represented approximately 1.48% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1, 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

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

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

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

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

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF. Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey.

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 "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
2015	$29,081,052,900	$36,196,265,273
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[2]	35,288,344,219	46,464,447,981

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

(2) At August 31, 2019, 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, $216.7 million, $3,640.2 million, $7.5 million, and $4,457.3 million, respectively, and market values of approximately $3,198.2 million, $619.7 million, $3,927.6 million, $1.3 million, and $4,457.3 million, respectively. At December 31, 2019, the PSF had a book value of $35,402,400,338 and a market value of $48,020,026,798. December 30, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2015	$63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203 [2]

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

(2) As of August 31, 2019 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was $133,188,149,264, of which $48,790,249,062 represents interest to be paid. As shown in the table above, at August 31, 2019, there were $84,397,900,203 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of $117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.22% of Program capacity was available to the School District Bond Guarantee Program and 2.78% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category[1]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	$63,197,514,047	28	$ 757,935,000	3,117	$63,955,449,047
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[2]	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

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

(2) At December 31, 2019 (based on unaudited data, which is subject to adjustment), there were $88,291,231,320 of bonds guaranteed under the Guarantee Program, representing 3,401 school district issues, aggregating $85,920,336,320 in principal amount and 54 charter district issues, aggregating $2,370,895,000 in principal amount. At December 31, 2019, the capacity allocation of the Charter District Bond Guarantee Program was $4,350,476,526 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2019

The following discussion is derived from the Annual Report for the year ended August 31, 2019, 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) assets. As of August 31, 2019, the Fund's land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2019, the Fund balance was $46.5 billion, an increase of $2.4 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 continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2019, net of fees, were 4.17%, 5.25% and 8.18%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). 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 5.84%, 6.13%, and 6.41%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2019, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation-Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2019, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of $5.1 billion and capital commitments to private equity limited partnerships for a total of $6.3 billion. Unfunded commitments at August 31, 2019, totaled $1.9 billion in real estate investments and $2.3 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2019, the remaining commitments totaled approximately $2.5 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns, net of fees, of 3.14%, -8.99%, -2.93%, and -4.15%, respectively, during the fiscal year ended August 31, 2019. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 10.54% during the fiscal year and absolute return investments yielded a return of 2.28%. The PSF(SBOE) real estate and private equity investments returned 7.22% and 11.93%, respectively. Risk parity assets produced a return of 10.89%, while real return assets yielded 0.71%. Emerging market debt produced a return of 10.40%. Combined, all PSF(SBOE) asset classes produced an investment return, net of fees, of 4.17% for the fiscal year ended August 31, 2019, out-performing the benchmark index of 3.76% by approximately 41 basis points. All PSF(SLB) externally managed investments (including cash) returned 6.41% net of fees for the fiscal year ending August 31, 2019.

For fiscal year 2019, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $3.7 billion, a decrease of $0.3 billion from fiscal year 2018 earnings of $4.0 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2019. In fiscal year 2019, 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 10.0% for the fiscal year ending August 31, 2019. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2018 and 2019, the distribution from the SBOE to the ASF totaled $1.2 billion and $1.2 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2018 and 2019 totaled $0 and $300 million, respectively.

At the end of the 2019 fiscal year, PSF assets guaranteed $84.4 billion in bonds issued by 863 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,443 school district and charter district bond issues totaling $186.2 billion in principal amount. During the 2019 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,346. The dollar amount of guaranteed school and charter bond issues outstanding increased by $5.3 billion or 6.7%. The State Capacity Limit increased by $5.0 billion, or 4.2%, during fiscal year 2019 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program did not increase during fiscal year 2019 as the IRS Limit was reached during the prior fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 and 2019 Constitutional Amendments

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a $2.2 billion distribution to the ASF for State fiscal biennium 2020-2021, to be made in equal monthly increments of $92.2 million, which represents a 2.981% Distribution Rate for the biennium and a per student distribution of $220.97, based on 2018 preliminary student average daily attendance of 5,004,998. In making the 2020-2021 biennium distribution decision, the SBOE took into account a commitment of the SLB to transfer $10 million to the PSF in fiscal year 2020 and $45 million in fiscal year 2021.

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

The constitutional amendments approved on November 8, 2011 also provided authority to the GLO or any other entity (other than the SBOE) that has responsibility for the management of 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 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 each of the GLO, the SBOE or any other entity that may have the responsibility to manage such properties (at present there are no such other entities). Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers. The exercise of the increased authorization for such transfers is subject to the discretion of the GLO and the SBOE, and such transfers could be taken into account by the SBOE for purposes of its distributions to the ASF that are made pursuant to the Total Return Constitutional Amendment. However, future legal and/or financial analysis may be needed before the impact on the Fund of the constitutional change effected in November 2019 can be determined.

Other Events and Disclosures

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

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

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

As of August 31, 2019, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this Official Statement under the heading "THE PERMANENT SCHOOL FUND

GUARANTEE PROGRAM." The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 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 Brazoria County 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 PROPERTY TAXATION – 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.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than $5,000) and (2) an additional exemption of at least $3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

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.

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.

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.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM PROPERTY TAXATION – 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.

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.

The Property Tax Code as Applied to the District

The District grants the state mandated exemption to the market value of residence homesteads of $15,000, and the District has granted an additional local option exemption of 10% of the market value of residence homesteads.

The District grants the state mandated exemption to the market value of the residence homestead to persons 65 years of age or older of $10,000, plus an additional local option exemption of $5,000 per residence homestead is granted by the District; and disabled persons are granted the state mandated exemption of $10,000 until age 65, after which time only the over-65 exemption applies.

Disabled veterans are granted an exemption according to their percent (%) of disability.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property.

The Brazoria County Tax Assessor-Collector collects the District's taxes.

The District does permit split payments but does not permit early payment discounts.

The District has not granted the freeport property tax-exemption and, therefore, taxes freeport property.

The District does not tax "goods-in-transit."

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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 "State Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State 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 State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State 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" herein).

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 (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

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

Prior to the 2019 Legislative Session, a school district's maximum M&O tax rate for a given tax year was determined by multiplying that school district's 2005 M&O tax rate levy by an amount equal 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.

Local Funding for School Districts

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

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

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

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

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

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

State Funding for School Districts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2019-2020 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. According the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, 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 may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on July 11, 1959, in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (now codified at Section 45.003, Texas Education Code, as amended).

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

> For the 2019 tax year, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage has been set at 93%.
>
> For the 2020 and subsequent tax years, the maximum M&O tax rate per $100 of taxable value that may be adopted by a school district is the sum of $0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is $0.93 (see "TAX RATE LIMITATIONS - Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" herein).

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued, in part, for school building purposes pursuant to Chapter 45, Texas Education Code, as new debt and such portion is therefore subject to the threshold tax rate test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

For the 2019 tax year, a school district with a Voter-Approval Tax Rate equal to or greater than $0.97 (excluding the school district's current I&S tax rate) may not adopt tax rate for the 2019 tax year that exceeds the school district's Voter-Approval Tax Rate. For the 2019 tax year, the District is not eligible to adopt a tax rate that exceeds its Voter-Approval Tax Rate.

Beginning with the 2020 tax year, a school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60^{th}) 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 (71^{st}) 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 (60^{th}) 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 (71^{st}) 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 (60^{th}) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of $0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are refunding bonds and are not subject to this limitation.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas ("TRS"), a cost-sharing multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. See "Notes to the Financial Statements, Note 8 - Defined Benefit Pension Plan Obligations" in the audited financial statements of the District for the year ended June 30, 2019 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. See "Note 9 - Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended June 30, 2019 as set forth in APPENDIX C hereto.

INVESTMENT POLICIES

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

Legal Investments

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments*

As of January 1, 2020, the following percentages of the District's investable funds were invested as indicated below:

Category of Investments	Amount	Percentage	Term of Investments
Lone Star Pool	$ 1,192,608	7.56%	Daily Liquidity
Texstar	485,155	3.07%	Daily Liquidity
Texas Class	8,336,925	52.83%	Daily Liquidity
Prosperity Bank	5,765,217	36.54%	Daily Liquidity
	$15,779,905	100.00%	

* *Unaudited.*

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

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas 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 approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. 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 therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS - Legal Opinions and No-litigation Certificate" (excluding the last sentence of the first paragraph thereof, as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Kassahn & Ortiz, P.C., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly 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 from the transaction.

Litigation

In the opinion of various officials of the District, except as disclosed in this Official Statement, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the “Code”), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. The form of Bond Counsel's opinion appears in APPENDIX D hereto.

In rendering the foregoing opinion, Bond Counsel will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage “profits” and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

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

Ancillary Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

The 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

The District in the Order 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"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2019/20" and "2020/2021 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to "Authorized But Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds," have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of December in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

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

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information from MSRB

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made 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.

With respect to debt of the District issued prior to the EMMA Effective Date, the District remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC has entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners 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 amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case 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 giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

S&P Global Ratings ("S&P") has assigned its enhanced municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein. In addition, S&P has assigned its underlying unenhanced rating of "A+" to the District's ad valorem tax-supported indebtedness, including the Bonds.

The explanation of the significance of any rating may be obtained from the company furnishing the rating. The ratings reflect only the view of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also 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 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of $70,593.45, plus accrued interest from their Dated Date to their date of initial delivery. The Underwriters' obligations are subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Certification of the Official Statement

At the time of payment for and delivery of the Initial Bond, the Underwriters 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 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 the Bonds, and on the date of the initial delivery of the Bonds, 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 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; and (d) there has been no material adverse change in the financial condition of the District, since June 30, 2019, the date of the last financial statements of the District appearing in the Official Statement.

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.

Information from External Sources

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

Authorization of the Official 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 has been approved by the Board of the District for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

/s/ Jonathan Champagne
President, Board of Trustees

ATTEST:

/s/ Linda Huebner
Secretary, Board of Trustees

APPENDIX A

Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Assessed Valuation *

2019 Appraised Valuation of District	$2,026,460,950
Less: Exemptions/Deductions	597,114,135
2019 Total Taxable Assessed Valuation[1]	$1,429,346,815

* *Brazoria County Appraisal District.*
(1) *Includes valuations against which a freeze of tax levy was granted for persons 65 years or older in 2019.*

Direct Debt Information

Total Bonded Indebtedness Payable from Ad Valorem Taxes: (at 1-1-2020)		
Limited Maintenance Tax	$ 30,000	
Unlimited Tax	39,620,000	$39,650,000
Less: Interest & Sinking Fund Cash Balance (at 1-01-2020)		2,529,009
Net Bonded Indebtedness Payable from Ad Valorem Taxes		$37,120,991

Direct Debt Ratios

Ratio of Total Bonded Debt ($39,650,000) to Taxable Assessed Valuation ($1,429,346,815)	2.77%
Ratio of Total Bonded Debt ($39,650,000) to Total Appraised Valuation ($2,026,460,950)	1.96%
Ratio of Net Bonded Debt ($37,120,991) to Taxable Assessed Valuation ($1,429,346,815)	2.60%
Ratio of Net Bonded Debt ($37,120,991) to Total Appraised Valuation ($2,026,460,950)	1.83%

Non-Funded Debt

Capital Leases

During the year ended June 30, 2019, the District entered into a capital lease for Xerox copiers throughout the District. The lease, which carries no requirement for an interest payment, calls for a monthly payment of $2,429 for sixty months.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments, as of June 30, 2019.

Year Ending June 30	Amount
2020	$ 29,145
2021	29,145
2022	29,145
2023	23,997
Total	111,432
Less amount representing interest	-0-
Net present value of minimum lease payments	$111,432

During the year ended June 30, 2019, the District paid capital lease (the buy-out obligation) principal in the amount of $29,145 and no interest.

Authorized But Unissued General Obligation Bonds

After the issuance of the Bonds, the District has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may, however, 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.

Anticipated Issuance of Additional Bonds

The District does not anticipate the issuance of additional tax-supported debt in the next twelve months except potentially refunding bonds for debt service savings.

Population and Per Capita Indebtedness

2019 District Population Estimate	21,351
2019 Per Capita Taxable Assessed Valuation ($1,429,346,815)	$66,945.19
Per Capita Direct Debt ($39,650,000)	$1,857.06

Enrollment and Average Daily Attendance Data

2019/20 Enrollment (1-01-20)	2,993
2019/20 Average Daily Attendance (1-01-20)	2802.530
2019 Taxable Assessed Valuation ($1,429,346,815) Per Enrollment	$477,563.25

Area, Valuation and Bonded Debt Data

Area of District in Square Miles	248.29
Area of District in Acres	158,905
Total Direct Bonded Debt ($39,650,000) Per Acre	$249.52
2019 Taxable Assessed Valuation ($1,429,346,815) Per Acre	$8,994.98

Outstanding Debt By Issues

Issues	Original Amount	Amount Outstanding at 3-01-2020
Limited Tax:		
Certificates of Indebtedness, Series 2009	$ 250,000	$ 30,000
Unlimited Tax Debt**:**		
Refunding Bonds, Series 2012	$ 7,979,997	$ 5,315,000
School Building Bonds, Series 2013	5,000,000	3,850,000
Refunding Bonds, Series 2014	9,475,000	9,475,000
Refunding Bonds, Series 2015	6,715,000	4,150,000
Refunding Bonds, Series 2019	6,950,000	6,640,000
School Building Bonds, Series 2020 (the “Bonds”)	10,190,000 *	10,190,000 *
Total Debt		$39,650,000 *
Less State Assistance from EDA and IFA (3.08%)		906,444
Total Debt Net of State Assistance		$38,743,556 *

* *This amount represents the product of (i) the percentage of the current year’s debt service on the District’s Bonds expected to be paid from allotments of State assistance for debt service multiplied by (ii) the current outstanding principal amount of the District’s Bonds.*

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Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending June 30 In Each Of The Years 2020 - 2040 Inclusive)*

2020	$ 1,750,000	
2021	1,565,000	
2022	1,655,000	
2023	1,790,000	
2024	1,880,000	20.88%
	-	
2025	1,970,000	
2026	1,985,000	
2027	2,060,000	
2028	1,660,000	
2029	1,730,000	43.62%
	-	
2030	840,000	
2031	4,500,000	
2032	2,540,000	
2033	2,640,000	
2034	2,735,000	75.66%
	-	
2035	1,590,000	
2036	1,630,000	
2037	1,635,000	
2038	1,685,000	
2039	1,740,000	95.67%
	-	
2040	1,790,000	100.00%
	$41,370,000	

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Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

Political Subdivision	Gross Debt Amount	Gross Debt As Of	Percent Overlapping	Amount Overlapping
Brazoria County	$ 69,425,000	6-15-2019	3.78%	$ 2,624,265
Brazoria County Toll Road Authority	83,538,313	6-15-2019	4.25%	3,550,378
City of Brazoria	5,055,000	6-15-2019	100.00%	5,055,000
City of Lake Jackson	37,960,000	6-15-2019	0.62%	235,352
Port Freeport	32,940,000	6-15-2019	6.52%	2,147,688
Varner Creek Utility District	10,110,000	6-15-2019	100.00%	10,115,000
City of West Columbia	-0-	6-15-2019	0.00%	-0-
Total Overlapping Funded Debt				$23,727,683
Columbia-Brazoria I.S.D.	39,650,000*	1-15-2020	100.00%	39,650,000*
Total Direct and Estimated Overlapping Funded Debt				$63,377,683
Ratio to 2019 Taxable Assessed Valuation ($1,429,346,815)				4.43%
Per Capita (21,351) Direct and Estimated Overlapping Debt				$2,968.37

* *Includes the Bonds and the maintenance tax debt.*

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation*	Tax Rate	% Collections Current	% Collections Total	Year Ending
2008	$760,691,631	$1.2965	94.55%	98.11%	6-30-09
2009	703,524,720	1.2965	93.53%	98.79%	6-30-10
2010	737,684,998	1.2965	94.67%	99.92%	6-30-11
2011	724,747,551	1.2965	94.91%	99.18%	6-30-12
2012	742,390,204	1.2965	95.86%	127.00%	6-30-13
2013	827,877,748	1.2965	96.45%	100.44%	6-30-14
2014	939,107,963	1.2847	97.20%	100.43%	6-30-15
2015	851,273,371	1.2847	96.95%	101.26%	6-30-16
2016	1,019,395,986	1.2847	96.83%	99.85%	6-30-17
2017	1,193,006,302	1.2695	96.78%	98.63%	6-30-18
2018	1,248,883,360	1.2581	97.24%	101.41%	6-30-19
2019	1,429,346,815	1.1703	(In Process of Collection)		6-30-20

* *Assessed Valuation figures for tax years 2008 through 2018 are taken from District's audited financial statements. Assessed valuation figures for tax year 2019 is taken from information obtained from Brazoria County Appraisal District as of certification.*

Tax Rate Distribution

Tax Year	2019	2018	2017	2016	2015
Local Maintenance	$0.9700 [1]	$1.0400	$1.0400	$1.0400	$1.0400
Interest & Sinking Fund	.2003	.2181	.2295	.2447	.2447
Total	$1.1703	$1.2581	$1.2695	$1.2847	$1.2847

Source: The District

[1] *The decline in the District's Maintenance and Operations Tax Rate 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."*

2019 Tax Exemptions/Exclusions Allowed

State-mandated $25,000 General Homestead Exemptions *	$194,986,204
$10,000 Over 65 Homestead Exemptions *	28,869,650
100% Disabled/Unemployable Veterans Homestead Exemptions	9,122,703
Veteran Exemptions Loss	1,579,010
Pollution Control	61,023,750
10% Per Year Cap on Residential Homestead	31,699,269
Disabled Persons	1,307,629
Productivity Loss	268,367,810
Other	158,110
Total Exemptions and Exclusions	$597,114,135

Source: Brazoria County Appraisal District; does not include freeze value loss.
* *Includes local optional exemption.*

Schedule of Delinquent Taxes Receivable (Unaudited) Fiscal Year Ended June 30, 2019

Year Ending June 30	Ending Balance
2010 and prior	$ 183,149
2011	26,336
2012	30,002
2013	32,867
2014	37,976
2015	45,716
2016	58,634
2017	120,045
2018	202,716
2019 (school year under audit)	446,682
Total	$1,184,123

Source: The District's audited financial statements.

Taxpayers by Classification

Classification	2019 Assessed Valuation	Percent Of Total	2018 Assessed Valuation	Percent Of Total	2017 Assessed Valuation	Percent Of Total
Single Family Residential	$ 901,678,629	44.50%	$ 808,937,074	43.87%	$ 805,767,364	44.40%
Multi-Family Residential	13,468,489	0.66%	11,806,481	0.64%	9,785,632	0.54%
Vacant-Platted Lots	44,230,642	2.18%	46,167,623	2.50%	46,571,882	2.57%
Acreage Qualified Open Space and Improvements	279,153,362	13.77%	255,401,541	13.85%	263,229,158	14.50%
Rural Land, non-qualified	120,406,162	5.94%	107,951,617	5.85%	107,297,103	5.91%
Oil, Gas and Minerals	7,614,230	0.38%	5,211,240	0.28%	7,086,627	0.39%
Real Commercial/Industrial	345,104,446	17.03%	336,605,623	18.25%	335,970,443	18.51%
Utilities	211,955,070	10.45%	134,305,220	7.28%	121,236,370	6.68%
Personal Commercial/Industrial	82,493,070	4.07%	121,426,350	6.59%	106,345,460	5.86%
Mobile Homes	13,071,270	0.65%	9,359,580	0.51%	6,401,100	0.35%
Residential Inventory	6,555,650	0.32%	6,039,230	0.33%	4,338,420	0.24%
Special Inventory	729,930	0.05%	867,770	0.05%	860,100	0.05%
Total Valuation	$2,026,460,950	100.00%	$1,844,079,349	100.00%	$1,814,889,659	100.00%
Less Exemptions & Exclusions[(1)]	597,114,135		540,319,799		560,791,084	
Net Taxable Assessed Valuation	$1,429,346,815		$1,303,759,550		$1,254,098,575	

Source: Brazoria County Appraisal District as certified, approved values only. Does no include valuations under review.
(1) Does not include freeze value loss.

Ten Largest Taxpayers

Name	Type of Property	2019 Net Taxable Assessed Valuation	% of Total 2019 Assessed Valuation
Phillips 66 Company	Oil and Gas	$192,974,540	13.50%
Seaway Crude Pipeline LP	Oil and Gas Pipeline	77,284,530	5.41%
Chevron Phillips Chem Co LP	Oil and Gas	45,202,090	3.16%
Texas New Mexico Power Company	Electric Utility/Power Plant	25,497,892	1.78%
Phillips 66 Company	Pipeline	13,758,700	0.96%
DCP Sandhills Pipeline LLC	Oil and Gas Pipeline	12,728,000	0.89%
Gulf South Pipeline Co LP	Oil and Gas Pipeline	12,532,820	0.88%
Centerpoint Energy Company	Electric Utility/Power Plant	10,092,870	0.71%
Dow Chemical Company	Chemical Plant	9,324,220	0.65%
Phillips 66 Company (G7)	Pipeline	7,309,810	0.51%
		$406,705,472	28.45%*

Source: Brazoria County Appraisal District.

* *As shown in the table above, the top ten taxpayers in the District account for in excess of 28% of the District's tax base. Adverse developments in economic conditions could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE BONDS – Default and Remedies" and "AD VALOREM PROPERTY TAXATION - District and Taxpayer Remedies" in this Official Statement.*

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2019/20

Interest & Sinking Fund Balance at 6-30-2019	$3,071,170
Estimated Income from $0.2003 I&S Tax Rate @ 97% Collected Using 2019 Taxable Assessed Valuation of $1,420,346,815	2,777,092
Estimated Other Income	100,000
Estimated Total Funds Available	5,948,262
2019/20 Debt Service Requirement	2,835,374
Estimated Interest & Sinking Fund Balance at 6-30-2020	$3,112,888

CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE BONDS AT ACTUAL RATES

FISCAL YEAR 6-30	CURRENTLY OUTSTANDING DEBT SERVICE[1]	PLUS: THE BONDS AT ACTUAL RATES PRINCIPAL DUE 2/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	GRAND TOTAL ALL DEBT SERVICE
2020	$ 2,835,374.28					$ 2,835,374.28
2021	2,572,663.50	$ 50,000	$ 164,479.17	$ 197,375.00	$ 411,854.17	2,984,517.67
2022	2,630,264.50	50,000	196,625.00	196,625.00	443,250.00	3,073,514.50
2023	2,635,678.50	135,000	195,875.00	195,875.00	526,750.00	3,162,428.50
2024	2,638,712.50	175,000	193,850.00	193,850.00	562,700.00	3,201,412.50
2025	2,652,562.50	200,000	191,225.00	191,225.00	582,450.00	3,235,012.50
2026	2,299,650.00	525,000	188,225.00	188,225.00	901,450.00	3,201,100.00
2027	2,766,250.00	75,000	180,350.00	180,350.00	435,700.00	3,201,950.00
2028	2,286,850.00	75,000	179,225.00	179,225.00	433,450.00	2,720,300.00
2029	2,293,450.00	75,000	178,100.00	178,100.00	431,200.00	2,724,650.00
2030	662,250.00	750,000	176,600.00	176,600.00	1,103,200.00	1,765,450.00
2031	5,021,550.00	10,000	161,600.00	161,600.00	333,200.00	5,354,750.00
2032	2,870,225.00	75,000	161,400.00	161,400.00	397,800.00	3,268,025.00
2033	2,871,335.00	75,000	159,900.00	159,900.00	394,800.00	3,266,135.00
2034	2,863,435.00	75,000	158,400.00	158,400.00	391,800.00	3,255,235.00
2035	626,735.00	1,060,000	156,900.00	156,900.00	1,373,800.00	2,000,535.00
2036	617,885.00	1,085,000	135,700.00	135,700.00	1,356,400.00	1,974,285.00
2037	609,450.00	1,075,000	114,000.00	114,000.00	1,303,000.00	1,912,450.00
2038	615,370.00	1,095,000	92,500.00	92,500.00	1,280,000.00	1,895,370.00
2039		1,740,000	70,600.00	70,600.00	1,881,200.00	1,881,200.00
2040		1,790,000	35,800.00	35,800.00	1,861,600.00	1,861,600.00
	$42,369,690.78	$10,190,000.00	$3,091,354.17	$3,124,250.00	$16,405,604.17	$58,775,294.95

[1] *Does not include maintenance tax debt.*

2020/2021 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 6-30-2020	$3,112,888
Estimated Income from $0.2003 I&S Tax Rate @ 97% Collected Using 2020 Estimated Taxable Assessed Valuation of $1,472,227,219	2,860,405
Estimated Other Income	75,000
Total Estimated Funds Available	6,048,293
2020/21 Debt Service Requirement	2,984,518
Estimated Interest & Sinking Fund Balance at 6-31-2021	$3,063,775

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised school finance system and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

Year Ended:	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/31/2016**	**6/31/2015**
REVENUES					
Local Sources	$17,436,112	$16,213,387	$14,829,305	$12,549,454	$13,530,875
State Sources	13,320,455	14,464,834	13,909,049	13,896,201	14,456,501
Federal Sources	3,501,076	3,164,938	2,885,180	2,997,713	2,888,088
Total all Revenue	34,257,643	33,843,159	31,623,534	29,443,368	30,875,464
EXPENDITURES					
Instruction	16,228,607	16,360,127	16,297,934	15,295,237	14,628,248
Instruction Related	2,354,936	1,644,359	1,723,394	1,637,903	1,620,902
Pupil Services	5,654,677	4,839,262	4,875,667	5,258,081	4,971,001
General Administration	1,097,561	1,154,010	1,108,299	1,005,037	906,379
Debt Service	2,967,014	2,675,512	2,662,208	3,129,703	3,005,404
Plant Maintenance & Operation	3,732,934	3,668,845	3,826,021	4,076,637	2,874,794
Capital Outlay	449,294	335,480	399,891	1,025,469	4,338,779
Data Processing	1,020,592	846,353	749,419	825,547	809,388
Community Service	4,035	2,728	4,903	6,912	6,340
Intergovernmental Charges	93,399	93,070	85,314	77,621	80,644
Shared Services Arrangements	2,400	4,700	1,200	10,000	771,071
Total all Expenditures	33,605,449	31,624,446	31,734,250	32,348,147	34,012,950
Total Other Resources and (Uses)	12,976	163,472	4,400	63,775	5,364
			16,297,934	15,295,237	14,628,248
Excess (Deficiency) of Revenues and			1,723,394	1,637,903	1,620,902
Other Resources Over Expenditures			4,875,667	5,258,081	4,971,001
and Other Uses	665,170	2,385,185	(106,316)	(2,841,004)	(3,132,122)
Fund Balance Beginning of Year	13,696,490	11,311,305	11,417,621	14,258,625	17,390,747
Increase (Decrease) in Fund Balance	-0-	-0-	-0-	-0-	-0-
Fund Balance End of Year	$14,361,660	$13,696,490	$11,311,305	$11,417,621	$14,258,625
Fund Balance - General Fund	$11,289,811	$10,982,319	$ 9,110,290	$ 9,350,238	$11,582,005

Year Ended:	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/31/2016**	**6/31/2015**
Assessed Valuation	$1,248,883,360	$1,193,006,302	$1,019,395,986	$851,273,371	$939,107,963
Total Tax Rate	$1.2581	$1.2695	$1.2847	$1.2847	$1.2847
Percent of Debt Service To Total Expenditures	8.83%	8.46%	8.39%	10.33%	8.84%

Source: The District and the District’s audited financial statements.

APPENDIX B

General Information Regarding the District And Its Economy

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THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. Information in this Appendix has been obtained from sources that are believed to be reliable, although no investigation has been made to verify the accuracy of such information. None of the District, the Financial Advisor, nor the Underwriters take responsibility for the accuracy or completeness thereof.

General

Columbia-Brazoria Independent School District (the "District") is located in southeast Texas about 60 miles southwest of Houston, Texas. The District is located in Brazoria County. Located within the District are the cities of West Columbia, Texas, and Brazoria, Texas, as well as outlying rural areas such as Columbia Lakes, Gayle Estates, the Wild Peach Community, Bar X, Holiday Shores, Royal Ridge, and Sugar Mill.

The District contains an area of 248.29 square miles. The District's 2019 population is estimated at 21,351.

Administration

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections being held each year on the first Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

School Facility	Grade Span	Enrollment At 1/1/ 2020
Columbia High School	9-12	895
West Brazos Junior High	7-8	457
Barrow Elementary	2-6	570
West Columbia Elementary	K-6	765
Wild Peach Elementary	PreK-1	306
Total		2,993

Accreditation

All District staff are 100% Highly Qualified (HQ) under No Child Left Behind (NCLB). Following are the District TEA Accountability Ratings for 2018:

- Columbia-Brazoria ISD - Met Standard
- Columbia High School - Met Standard
- West Brazos Jr. High - Met Standard
- West Columbia Elementary - Met Standard
- Wild Peach Elementary - Met Standard
- Barrow Elementary - Met Standard

Instruction

The mission of the District staff, working actively and cooperatively in partnership with students, parents/guardians, and other District constituents, is to prepare students to become more responsible and productive citizens, achieve success and dignity by creating a community of life-long learners and develop higher level thinking skills.

The District is dedicated to the belief that all students can learn and that it is the task of the school to provide the time and support to ensure this occurs. High expectations for student success on the part of staff, students, and parents are an inherent part of this belief. In addition, the District seeks to instill in students the responsibility for learning. All students have unique mental, emotional, social, and physical needs. Meeting these needs requires the combined efforts of students, teachers, parents and other community members, and administrators.

As students prepare for future endeavors in Grades 9-12, they are offered peer assisted leadership programs such as FCCLA, FFA and PALS, and the opportunity to engage in dual or concurrent enrollment at Brazosport College which involves them in college-level courses.

The District is involved in community partnerships such as the Brazoria County Child Development Council, Communities-in-Schools, literacy programs for parent instruction, and career and technical courses on site from Brazosport College. Numerous communication committees, which include community and parent representation to maintain and enhance communication with the District, function at both the campus and district levels.

The District supports numerous extracurricular programs such as UIL, athletic participation, Future Farmers of America, debate team, drama, drill team (Dancin' Dolls), choir and band programs, National Honor Society participation, and other subject-oriented organizations such as the environment clubs, and Spanish clubs. Students are encouraged to participate in fine arts activities with the San Jacinto Festival, Brazoria County Fair and Houston Livestock Show and Rodeo.

The District boasts active, involved students who reflect the values of the community. Many of the high school graduates engage in post-graduate studies at either their choice of a four-year college or one of three junior colleges within driving distance of the District. Students at Columbia High School in past years have been named as National Merit Scholarship winners or "commended" students and some have achieved appointments to the West Point Academy. Many students qualify for outstanding scholarship opportunities with the military and with colleges or universities.

Budget and Personnel

The budget for the 2019-20 year is $31,086,984. The District employs approximately 532 people, including professional and other, and has a General Fund payroll of $21,497,395. Total budget for all funds is $46,018,689 with payroll totaling $23,495,050.

Employee Retirement, Teacher Retirement System of Texas

The District has financial responsibility for the Teacher Retirement System of Texas only for the portion of the salaries of professional employees who earn above the state minimum pay schedule, with employees contributing 6.4% of their annual compensation and the State of Texas currently contributing 6.0%. The 104 teachers average over 10 years of experience. The district-wide student/teacher ratio is 16.1 to 1.

Average Daily Attendance and Percentage Increase

School Year	Membership	Average Daily Attendance	% ADA Increase (+) Decrease (-)
2007-08	3019	2889.183	-2.91%
2008-09	3121	2988.050	+3.42%
2009-10	3001	2898.040	-3.01%
2010-11	3063	2910.587	+0.43%
2011-12	2963	2827.590	-2.85%
2012-13	3023	2872.757	+1.60%
2013-14	3023	2867.620	-0.18%
2014-15	3063	2845.585	-0.77%
2015-16	3078	2869.578	+0.81%
2016-17	3101	2918.216	+1.73%
2017-18	3089	2955.224	+1.27%
2018-19	3053	2861.722	-3.16%
2019-20*	2993	2802.530	2.07%

Source: Columbia-Brazoria ISD
* *As of 1/1/2020*

THE AREA

Brazoria County

Brazoria County, Texas (the "County"), is a Gulf Coast county with an area of 1,386.8 square miles, and is a component of the Houston-Galveston-Brazoria Consolidated Metropolitan Statistical Area. The economy is based on petroleum, chemicals, fishing, tourism and agribusiness. The world's largest basic chemical complex is located in the County, contributing to the extensive petroleum and chemical production in the area and providing employment for many of the District's residents. Oil production for the County accounts for 0.28% of the total state production. The County ranks 41 out of all the counties in Texas for oil production and 70 out of all the counties in Texas for gas production. The Gulf Intercoastal Waterway slices through lowlands near Surfside Beach and is the most valuable waterway in America.

City of Brazoria

The City of Brazoria, Texas (the "City") is a retail center located in the southern portion of the District at the junction of State Highways 36 and 332, approximately 50 miles from the Houston central business district. Nearby chemical and petrochemical industries provide employment for many of the City's residents.

City of West Columbia

The City of West Columbia, Texas is a commercial center, located in the north part of the District at the intersection of State Highways 35 and 36, approximately 50 miles southwest of Houston, Texas, and serves an agricultural and petroleum-producing area.

Demographics

Census	Brazoria County	City of Brazoria	City of West Columbia
2018 est.	370,200	3,099	3,883
2010	313,166	3,019	3,898
2000	241,767	2,787	4,273
1990	191,707	2,717	4,372
1980	169,587	3,025	4,109

Selected Major Area Employers

Name	Product	Number of Employees
Alvin ISD	Education	3,648
Dow Chemical Company	Chemical Manufacturer	3,605
Pearland ISD	Education	2,689
Texas Department of Criminal Justice	Government	2,409
Wood Group	Piping	2,387
Brazosport ISD	Education	1,780
Brazoria County	Government	1,407
Olin Corporation	Chemical Manufacturing	1,200
Phillips 66	Oil and Gas	1,035
Angleton ISD	Education	939

Retail sales in 2018 totaled $6.1 billion. The total 2018 Effective Buying Income was $10.5 billion, with a total of 69.9% of the households having Effective Buying Incomes in excess of $25,000 and 15.5% having incomes below $25,000. The median income per household was $65,603 compared with the State median of $61,176.*

* *The Nielson Company.*

Labor Force Statistics - Brazoria County

	Average Annual				
	2019	2018	2017	2016	2015
Civilian Labor Force	179,510	175,989	173,464	169,945	167,189
Total Employed	172,076	168,025	164,254	161,140	159,547
Total Unemployed	7,434	7,964	9,210	8.805	7,642
% Unemployed	4.2%	4.5%	5.3%	5.2%	4.8%
% Unemployed (Texas)	2.9%	3.9%	4.3%	4.6%	4.4%
% Unemployed (United States)	3.7%	3.9%	4.4%	4.9%	5.3%

Source: Texas Workforce Commission, Labor Market Information Department.

Covered Employment and Wages by Industry - Brazoria County

	2nd Quarter	4th Quarter		
	2019	2018	2017	2016
Natural Resources and Mining	1,874	1,927	1,746	1,792
Construction	18,399	16,983	15,208	14,569
Manufacturing	13,057	13,081	12,566	13,056
Trade, Transportation and Utilities	21,084	21,286	20,433	19,750
Information	514	473	509	498
Financial Activities	3,889	3,785	3,633	3,619
Professional and Business Services	8,478	9,046	9,280	8,395
Education and Health Services	12,122	11,947	11,161	10,790
Leisure and Hospitality	13,675	12,646	12,071	11,814
Other Services	3,361	3,394	3,464	3,409
Unclassified	93	178	116	45
Federal Government	535	525	513	493
State Government	3,107	3,080	3,099	3,148
Local Government	16,670	16,594	16,177	15,869
Total Employment	116,857	114,947	109,975	107,248
Total Wages	$1,668,557,364	$1,716,491,267	$1,621,459,411	$1,462,597,738

Source: Texas Workforce Commission, Labor Market Information Department.

Agriculture

Agriculture consists of soybeans, sorghums, rice, nurseries, irrigation, hay, cotton, corn, bees and aquiculture. The County was the seventh largest producing county of soybeans and fourth largest producing county off rice in Texas in 2016.

Higher Education

Alvin Community College and Brazosport College had a combined 2018 fall enrollment of 9,945.

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Columbia-Brazoria Independent School District Audited Financial Statements (the “Report”) for the fiscal year ended June 30, 2019.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District’s financial condition. Reference is made to the complete Annual Audit Report for additional information.

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COLUMBIA-BRAZORIA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2019

KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Columbia-Brazoria Independent School District	Brazoria	020-907
Name of School District	County	Co.–Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _✓_ approved ____ disapproved for the year ended June 30, 2019, at a meeting of the board of trustees of such school district on the _15th_ day of October 2019.

Linda Huebner
Board Secretary

Jonathan Champagne
Board President

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

FINANCIAL SECTION

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

Lake Jackson Office:
8 West Way Court
Lake Jackson, Texas 77566
979-297-4075

Angleton Office:
2801 N. Velasco Suite C
Angleton, Texas 77515
979-849-8297

El Campo Office:
201 W. Webb
El Campo, Texas 77437
979-543-6836

Independent Auditor's Report

To the Board of Trustees
Columbia-Brazoria Independent School District
West Columbia, Texas 77486

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Columbia-Brazoria Independent School District (the "District") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Columbia-Brazoria Independent School District, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
Columbia-Brazoria Independent School District
West Columbia, Texas 77486
Page 2

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 13 through 23, budgetary comparison information on page 81, the required pension schedules on pages 82 through 85, and the required other post employment benefit plan (OPEB) schedules on pages 86 and 87 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 the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, 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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the required Texas education Agency 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, except for that portion marked "unaudited" on which we express no opinion, 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 Texas Education Agency 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
October 4, 2019

As management of the Columbia-Brazoria Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2019. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by $ 4,728,683 (*net position).*
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $ 14,361,660. Approximately 76 percent of this total amount, $ 10,976,516, is *available for spending* at the government's discretion (*unassigned fund balance).*
- At the end of the current fiscal year, unassigned fund balance for the general fund was $ 10,984,395, or 40 percent of the total general fund expenditures.
- During the year, the District had tax and other revenues for governmental programs that were $ 138,120 more than the $ 34,156,668 in expenses on a government-wide basis.
- The District reported net pension liability of $ 10,256,829 and a net OPEB liability of $ 12,129,864, at June 30, 2019, with the implementation of GASB Statements Nos. 68, 71, and 75. With the addition of these non-current liabilities on a government-wide basis, the District reported a negative unrestricted net position in the amount of $(6,930,003).

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.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities)* as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 25 and 26 of this report.

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 District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary 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, government 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 government 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 thirteen 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 and debt service fund, all of which are considered to be major funds. Data from the other ten 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, food service special revenue fund, and debt 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 27 through 31 of this report.

- ***Proprietary funds.*** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds.* The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded unemployment compensation and workers' compensation insurance programs. The basic proprietary fund financial statements can be found on pages 32 through 34 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 35. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 through 77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 81 through 87 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 90 through 96 of this report. Other schedules are to be found on pages 98 through 102 of this report.

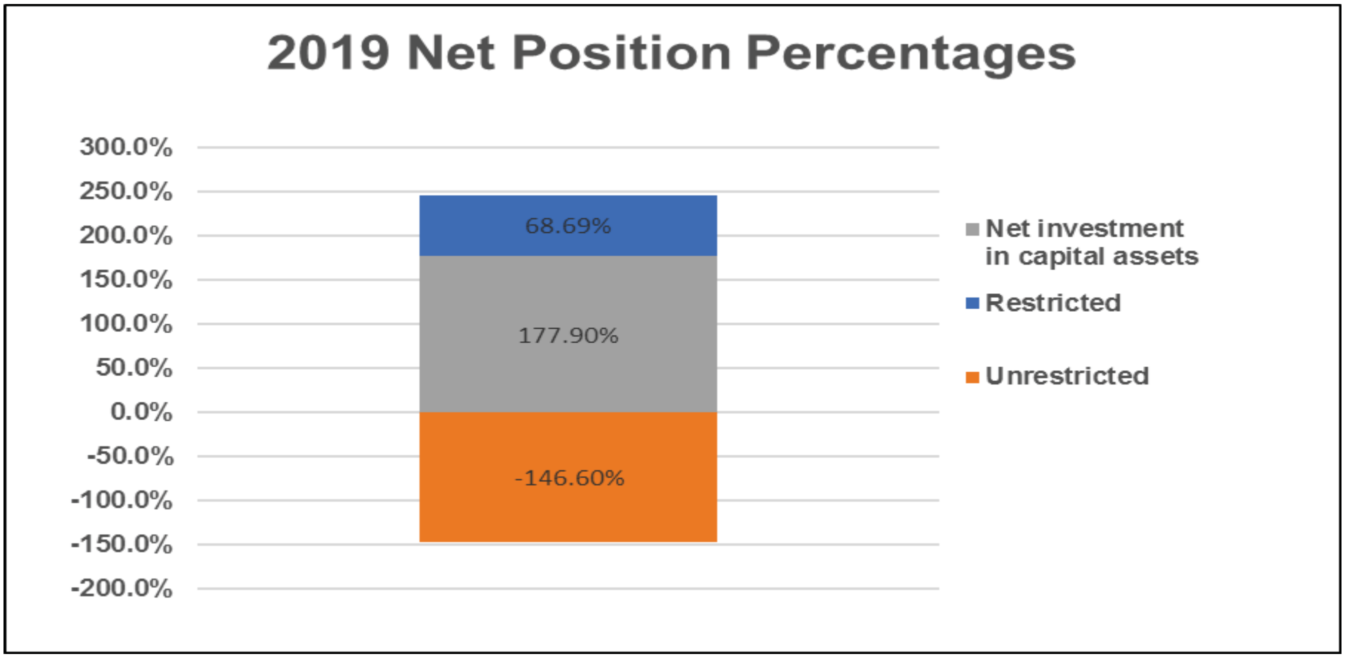
Government-wide Financial Analysis

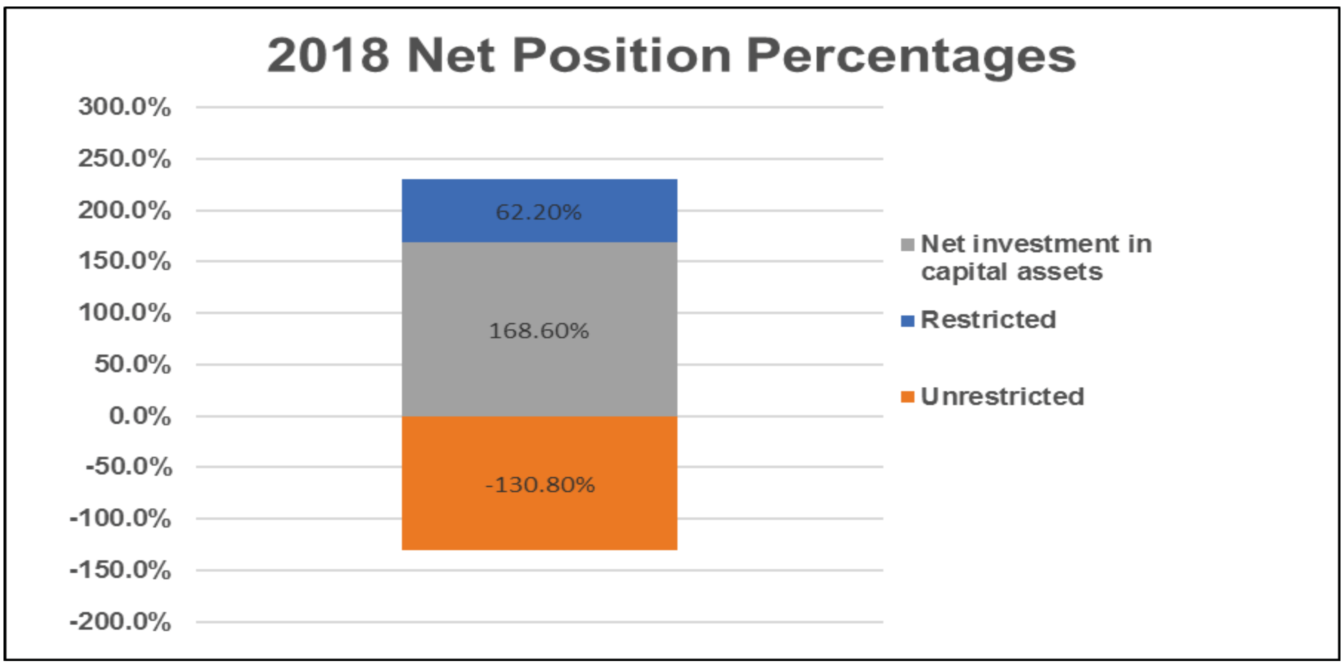
As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $ 4,728,683 as of June 30, 2019. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $ 4,590,563 as of June 30, 2018.

The District's Net Position

	2019	2018
Current and other assets	$ 18,695,354	$ 18,525,581
Capital assets	42,626,804	43,543,591
Total assets	61,322,158	62,069,172
Deferred outflows of resources	7,717,177	3,335,281
Long-term liabilities outstanding	56,145,700	51,104,703
Other liabilities	3,234,094	3,734,132
Total liabilities	59,379,794	54,838,835
Deferred inflows of resources	4,930,858	5,975,055
Net Position:		
Net investment in capital assets	8,416,156	7,739,347
Restricted	3,242,530	2,855,368
Unrestricted	(6,930,003)	(6,004,152)
Total net position	$ 4,728,683	$ 4,590,563

Investment in capital assets (e.g., land, buildings and improvements, furniture, equipment, vehicles, and construction in progress) less any related debt used to acquire those assets that is still outstanding is $ 8,416,156. 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 is 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 net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position,* is negative. This deficit is not an indication that the District does not have significant resources available to meet financial obligations next year, but rather the result of having long-term commitments related to GASB 68 and 75 that are more than currently available resources.

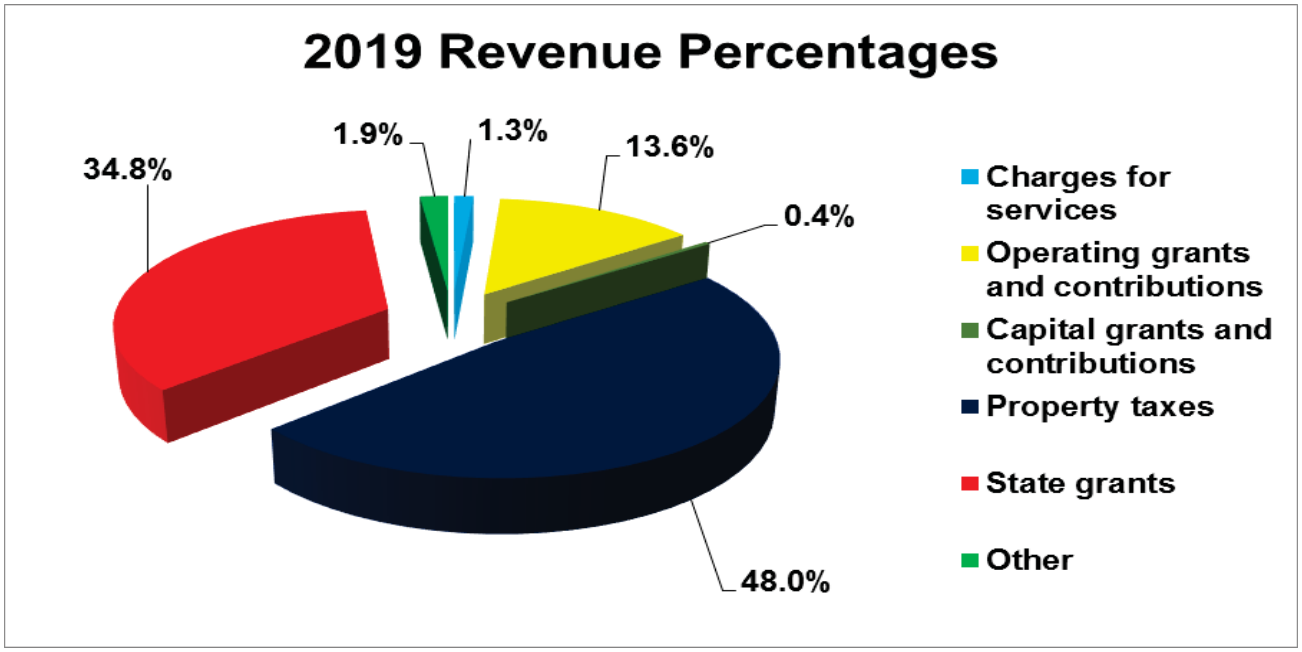

2019 Net Position Percentages
300.0%
250.0%
200.0%
150.0%
100.0%
50.0%
0.0%
-50.0%
-100.0%
-150.0%
-200.0%
68.69%
177.90%
-146.60%
Net investment in capital assets
Restricted
Unrestricted

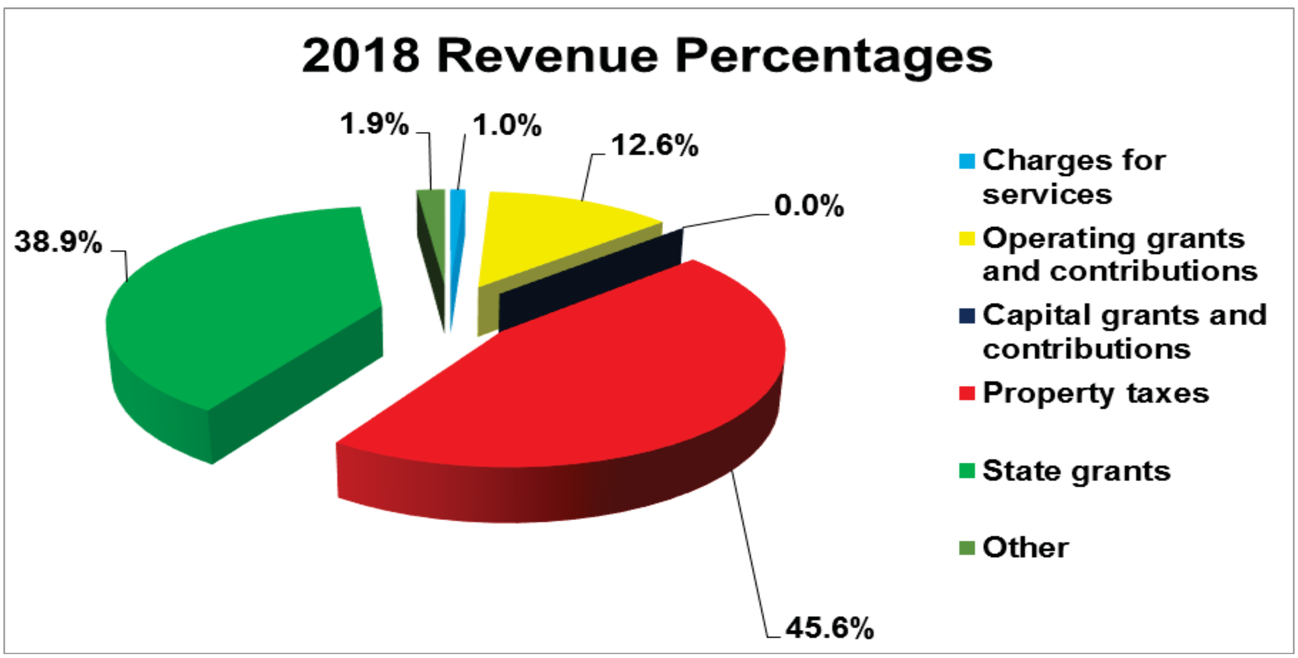

2018 Net Position Percentages
300.0%
250.0%
200.0%
150.0%
100.0%
50.0%
0.0%
-50.0%
-100.0%
-150.0%
-200.0%
62.20%
168.60%
-130.80%
Net investment in capital assets
Restricted
Unrestricted

Governmental activities. The District's total net position increased by $ 138,120**.** The total cost of all *governmental activities* this year was $ 34,156,668. The amount that our taxpayers paid for these activities through property taxes was $ 16,479,002 or 48%. The amount of costs that were paid by those who directly benefited from the programs was $ 427,361 or 1%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding were $ 4,819,934 or 14% and $ 11,943,527 or 35%, respectively.

Changes in the District's Net Position

	2019	2018
Revenues:		
Program revenues:		
Charges for services	$ 427,361	$ 340,010
Operating grants and contributions	4,670,759	4,306,843
Capital grants and contributions	149,175	
General revenues:		
Property taxes	16,479,002	15,525,881
State grants	11,943,527	13,235,168
Other	624,964	636,914
Total revenues	34,294,788	34,044,816
Expenses:		
Instruction	18,437,470	14,863,178
Instructional resources & media services	408,923	402,422
Curriculum & staff development	174,662	178,922
Instructional leadership	329,139	233,245
School leadership	1,736,057	1,402,294
Guidance, counseling & evaluation services	789,644	583,569
Social work services	64,356	68,845
Health services	326,644	235,445
Student transportation	1,807,238	1,442,956
Food service	1,525,746	1,362,677
Extracurricular activities	1,174,479	1,036,166
General administration	1,236,243	1,172,186
Plant maintenance and operations	3,387,801	2,984,100
Security and monitoring services	431,569	312,844
Data processing services	1,141,682	819,835
Community services	4,035	2,728
Debt service-interest and fees on long-term debt	1,080,681	1,104,052
Facilities acquisition and construction	4,500	
Payments for juvenile justice alternative education	2,400	4,700
Other intergovernmental charges	93,399	93,070
Total expenses	34,156,668	28,303,234
Change in net position	138,120	5,741,582
Beginning net position	4,590,563	16,767,532
Prior year adjustment		(17,918,551)
Beginning net position for 6-30-18 (restated for GASB 75)		(1,151,019)
Ending net position	$ 4,728,683	$ 4,590,563





Financial Analysis of 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.

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $ 14,361,660, an increase of $ 665,170 from last year's combined balance of $ 13,696,490. Approximately 76% of this total amount ($ 10,976,516) constitutes *unassigned fund balance*. The remainder of fund balance is not available for new spending because it has already been restricted 1) for inventory $ 12,223, 2) for prepaid items $ 301,751, and 3) to pay debt service $ 3,071,170.

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 $ 10,984,395, while the total fund balance was $ 11,289,811. 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. Unassigned fund balance represents 40% of the total general fund expenditures, while total fund balance represents 41% of that same amount.

The fund balance of the District's general fund increased by $ 69,760 or 0.62% during the current fiscal period compared to last year's total general fund balance of $ 11,220,051. Revenues increased approximately 1.6% from prior year from $ 27,681,260 to $ 28,125,202. Expenditures increased approximately 7.7% from prior year from $ 25,723,016 to $ 27,706,142.

The debt service fund has a total fund balance of $ 3,071,170, all of which is restricted for the payment of debt service. The debt service fund balance increased by $ 400,346 or 15.0% from last year's fund balance of $ 2,670,824. The net increase in fund balance is due to an increase in revenues garnered from property taxes and from state program revenues.

***Proprietary funds*.** As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position at June 30, 2019 amounted to a surplus of $ 565,036. The total decrease in net position was $ 18,441 from last year's net asset balance of $ 583,477.

General Fund Budgetary Highlights

Over the course of the year, the District recommended and the Board approved revisions to appropriations. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal period for amounts reserved and designated in the prior year.
- Amendments to budget for donations received during the period.
- Amendments during the period for unexpected occurrences.
- Amendments for special projects and purchases allowed from unexpected revenue sources and fund balance.

Following is a summary of amendments made to appropriations:

- $ 309,836 for incomplete projects or purchases ordered in previous fiscal year but not received.
- $ 1,264,386 for special facility projects and vehicles approved from reserves.
- $ 50,016 of donations received during the period.
- $ 1,447,652 unexpected revenues and expenses appropriated.

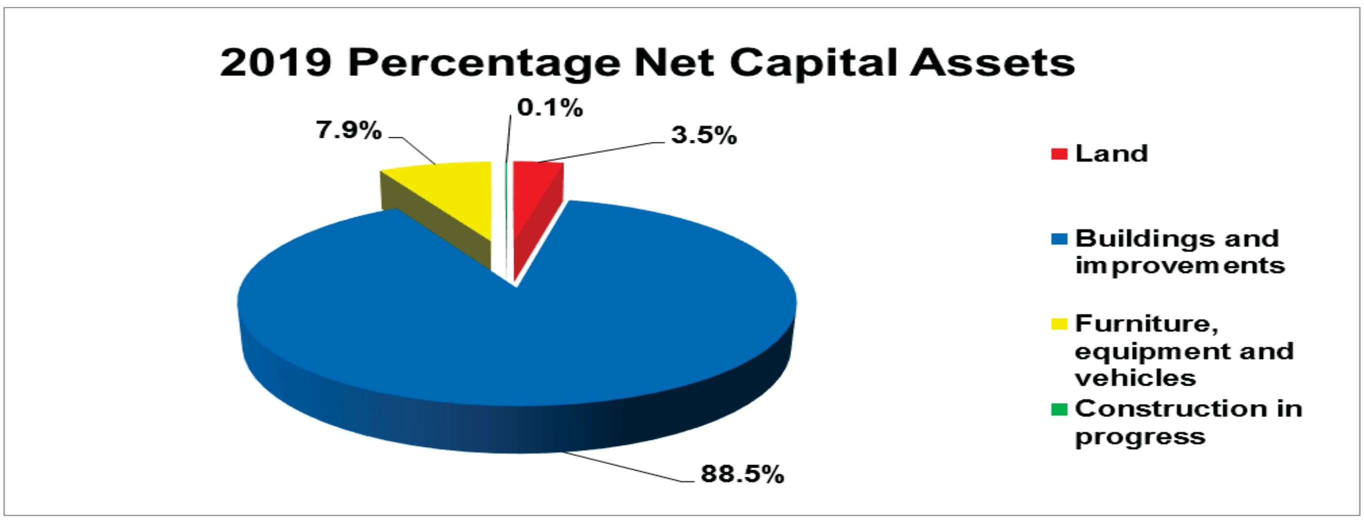
After appropriations were amended as described above, general fund actual revenues were above final budget by $ 1,676,755. General fund actual expenditures were $ 1,377,147 below final budget appropriations. The major portion of this positive variance in expenditures resulted from estimated versus actual instructional salaries, contracted services, and special maintenance projects not started and/or completed by fiscal year end.

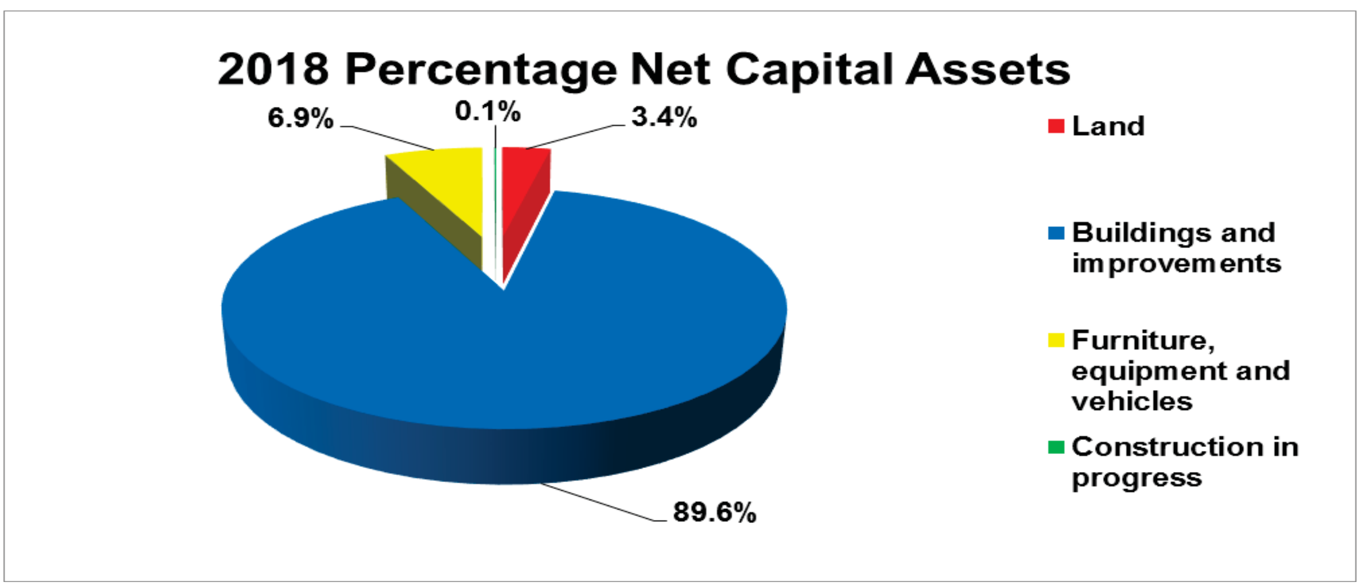
Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2019 amounts to $ 42,626,804 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

District's Capital Assets
(net of depreciation)

	June 30, 2019	June 30, 2018
Land and land improvements	$ 1,488,426	$ 1,488,426
Buildings and improvements	37,744,085	39,037,823
Furniture, equipment and vehicles	3,357,917	2,992,742
Construction in progress	36,376	24,600
Total at historical cost	$ 42,626,804	$ 43,543,591



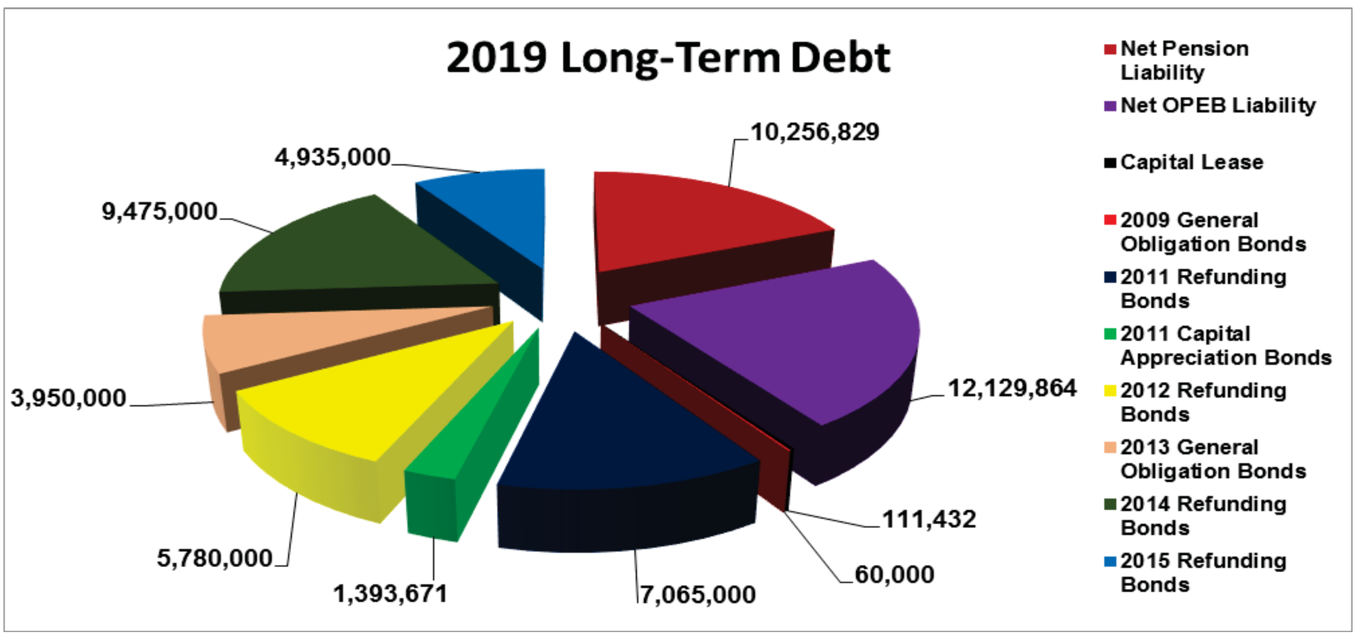


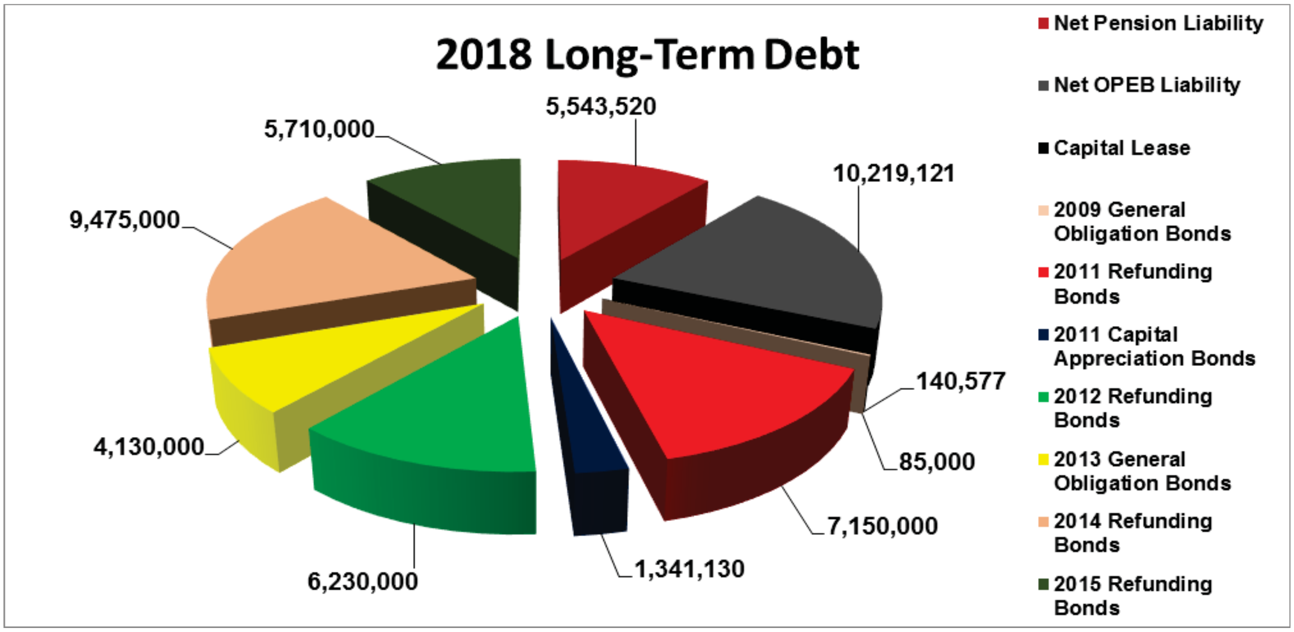
Additional information on the District's capital assets can be found in Note 5 on pages 56 and 57 of this report.

Long-term debt. At June 30, 2019, the District had total long-term debt outstanding of $ 56,145,700, an increase of $ 5,040,997 from the previous year. Long-term debt is made of the following:

District's Long-Term Debt

	June 30, 2019	June 30, 2018
General Obligation Bonds	$ 32,658,671	$ 34,121,130
Capital Lease	111,432	140,577
Net pension liability	10,256,829	5,543,520
Net OPEB liability	12,129,864	10,219,121
Components of Long-Term Debt:		
Premium on general obligation bonds	988,904	1,080,355
Total	$ 56,145,700	$ 51,104,703





The "AAA" long term rating on the District's Texas' bond reflects the Texas Permanent School Fund guarantee. The Standard and Poors "AAA" rating means the District's bonds possess favorable investment attributes and are to be considered as strong.

Additional information on the District's long-term debt can be found in Note 6 on pages 58 through 61 of this report.

Economic Factors and Next Year's Budgets and Rates

- The District has seen varying student enrollment declining in some years and increasing in others. So far in 2019-2020, enrollment is at a 2.0% decrease over the previous year.
- The District's 2019 taxable valuation has increased by 7.81% since last year. The District currently has a \$ 25,000 optional homestead exemption and a maintenance and operations tax rate of \$ .97 for 2019, this is a \$ 0.07 decrease from the prior year due to House Bill 3 passing in the last State Legislation. Also, due to HB 3 passing, the District will see a significant increase in state aid. The District is expecting a 15.80% increase in state aid, which includes additional funds to cover significant raises for employees, plus to make up for the decrease in the maintenance and operations tax rate to \$ 0.97 from \$ 1.04.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Director of Business Services, Columbia-Brazoria Independent School District, P.O. Box 158, West Columbia, Texas, 77486.

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2019

Exhibit A-1
Page 1 of 1

Data Control Codes		Governmental Activities
	ASSETS:	
1110	Cash and cash equivalents	$ 12,641,969
1220	Property taxes receivable	1,184,123
1230	Allowance for uncollectible taxes	(89,897)
1240	Due from other governments	4,611,651
1260	Internal balances	31
1290	Other receivables (net)	30,703
1300	Inventories	12,223
1410	Prepaid items	304,551
	Capital Assets:	
1510	Land and land improvements	1,488,426
1520	Building, furniture and equipment, net	37,744,085
1530	Furniture, equipment and vehicles, net	3,357,917
1580	Construction in progress	36,376
1000	Total assets	61,322,158
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows of resources	7,717,177
	Total deferred outflows of resources	7,717,177
	LIABILITIES:	
2110	Accounts payable	145,672
2140	Interest payable	451,641
2160	Accrued wages payable	2,530,509
2165	Accrued liabilities	97,780
2300	Unearned revenue	8,492
	Noncurrent Liabilities:	
2501	Due within one year	1,645,198
2502	Due in more than one year	32,113,809
2540	Net pension liability	10,256,829
2545	Net OPEB liability	12,129,864
2000	Total liabilities	59,379,794
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	4,930,858
	Total deferred inflows of resources	4,930,858
	NET POSITION:	
3200	Net investment in capital assets	8,416,156
	Restricted For:	
3820	Federal and state programs (food service)	679
3850	Debt service	3,241,851
3900	Unrestricted	(6,930,003)
3000	Total net position	$ 4,728,683

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES Exhibit B-1

YEAR ENDED JUNE 30, 2019 Page 1 of 1

			Program Revenues			
		1	3	4	5	Net (Expense)
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
	GOVERNMENTAL ACTIVITES:					
11	Instruction	$ 18,437,470	$	$ 2,713,484	$	$(15,723,986)
12	Instructional resources and media services	408,923		23,456		(385,467)
13	Curriculum and staff development	174,662		42,739		(131,923)
21	Instructional leadership	329,139		55,097		(274,042)
23	School leadership	1,736,057		97,835		(1,638,222)
31	Guidance, counseling, and evaluation services	789,644		151,334		(638,310)
32	Social work services	64,356		64,283		(73)
33	Health services	326,644		17,118		(309,526)
34	Student transportation	1,807,238		122,929	128,000	(1,556,309)
35	Food service	1,525,746	305,311	994,513		(225,922)
36	Extracurricular activities	1,174,479	122,050	48,876		(1,003,553)
41	General administration	1,236,243		57,769		(1,178,474)
51	Plant maintenance and operations	3,387,801		187,138		(3,200,663)
52	Security and monitoring services	431,569		32,406	21,175	(377,988)
53	Data processing services	1,141,682		61,782		(1,079,900)
61	Community services	4,035				(4,035)
72	Interest on long-term debt	1,076,519				(1,076,519)
73	Bond issuance costs and fees	4,162				(4,162)
81	Facilities acquisition and construction	4,500				(4,500)
95	Payments for juvenile justice alternative education programs	2,400				(2,400)
99	Other intergovernmental charges	93,399				(93,399)
TG	Total governmental activities	$ 34,156,668	$ 427,361	$ 4,670,759	$ 149,175	$(28,909,373)
	General Revenues:					
	Taxes:					
MT	Property taxes, levied for general purposes					$ 13,632,021
DT	Property taxes, levied for debt service					2,846,981
SF	State aid-formula grants					11,943,527
GC	Grants and contributions not restricted to specific programs					79,244
IE	Investment earnings					227,718
MI	Miscellaneous					317,271
S1	Special item – gain on sale of fixed assets					731
TG	Total general revenues, special items, and transfers					29,047,493
CN	Change in net position					138,120
NB	Net position – beginning					4,590,563
NE	Net position – ending					$ 4,728,683

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS Exhibit C-1

JUNE 30, 2019 Page 1 of 1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:				
	Assets:				
1110	Cash and cash equivalents	$ 9,014,770	$ 2,892,153	$ 69,328	$ 11,976,251
1220	Taxes receivable - delinquent	969,844	214,279		1,184,123
1230	Allowance for uncollectible taxes (credit)	(79,039)	(10,858)		(89,897)
1240	Receivables from other governments	3,989,932	146,277	475,442	4,611,651
1260	Due from other funds	308,222			308,222
1290	Other receivables	30,703			30,703
1300	Inventories	5,474		6,749	12,223
1410	Prepaid items	299,942		4,609	304,551
1000	Total assets	14,539,848	3,241,851	556,128	18,337,827
	Deferred outflows of resources:				
1700	Deferred outflows of resources				-0-
	Total deferred outflows of resources	-0-	-0-	-0-	-0-
1000A	Total assets and deferred outflows of resources	$ 14,539,848	$ 3,241,851	$ 556,128	$ 18,337,827
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
	Liabilities:				
2110	Accounts payable	$ 130,793	$	$ 11,977	$ 142,770
2160	Accrued wages payable	2,303,720		226,789	2,530,509
2170	Due to other funds			308,191	308,191
2300	Unearned revenue			8,492	8,492
2000	Total liabilities	2,434,513	-0-	555,449	2,989,962
	Deferred inflows of resources:				
2600	Deferred inflows of resources – property taxes	815,524	170,681		986,205
	Total deferred inflows of resources	815,524	170,681	-0-	986,205
	Fund Balances:				
	Non-Spendable:				
3410	Inventories	5,474		6,749	12,223
3430	Prepaid items	299,942		1,809	301,751
	Restricted Items:				
3480	Debt service		3,071,170		3,071,170
	Unassigned:				
3600	Unassigned	10,984,395		(7,879)	10,976,516
3000	Total fund balances	11,289,811	3,071,170	679	14,361,660
4000	Total liabilities, deferred inflows of resources, and fund balances	$ 14,539,848	$ 3,241,851	$ 556,128	$ 18,337,827

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

Total fund balances – governmental funds balance sheet (C-1)	$ 14,361,660
Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include $ 81,868,790 in assets less $ 39,241,986 in accumulated depreciation.	42,626,804
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to $ 815,524 and $ 170,681, respectively.	986,205
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	565,036
Payments for pension contributions from the TRS actuary date to the District's year-end are reported as expenditures in the funds and deferred outflows of resources in the governmental activities statement of position.	544,540
Payments for OPEB contributions from the TRS actuary date to the District's year-end are reported as expenditures in the funds and deferred outflows of resources in the governmental activities statement of position.	117,344
Pension deferred outflows of resources of $ 5,772,144 and pension deferred inflows of resources of $ 1,095,103.	4,677,041
OPEB deferred outflows of resources of $ 1,283,149 and OPEB deferred inflows of resources of $ 3,835,755.	(2,552,606)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was $ 988,904 (premium on sale of bonds of $ 1,535,766 less amortization costs of $ 546,862).	(988,904)
Payable for net pension obligation is not reported in the funds.	(10,256,829)
Payable for net OPEB obligation is not reported in the funds.	(12,129,864)
Payables for bond principal are not reported in the funds.	(32,658,671)
Payables for bond interest are not reported in the funds	(451,641)
Payables for capital lease principal are not reported in the funds.	(111,432)
Net position of governmental activities – statement of net position (A-1)	$ 4,728,683

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2019

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:				
5700	Local and intermediate sources	$ 14,207,890	$ 2,922,911	$ 305,311	$ 17,436,112
5800	State program revenues	12,786,216	92,955	441,284	13,320,455
5900	Federal program revenues	1,131,096		2,369,980	3,501,076
5020	Total revenues	28,125,202	3,015,866	3,116,575	34,257,643
	EXPENDITURES:				
	Current:				
0011	Instruction	14,641,978		1,586,629	16,228,607
0012	Instructional resources and media services	375,843			375,843
0013	Curriculum and staff development	135,995		35,509	171,504
0021	Instructional leadership	247,242		37,723	284,965
0023	School leadership	1,522,624			1,522,624
0031	Guidance, counseling, and evaluation services	618,931		91,816	710,747
0032	Social work services			64,283	64,283
0033	Health services	316,683			316,683
0034	Student transportation	2,016,323			2,016,323
0035	Food Service			1,467,036	1,467,036
0036	Extracurricular activities	1,079,605			1,079,605
0041	General administration	1,097,561			1,097,561
0051	Plant maintenance and operations	3,732,934			3,732,934
0052	Security and monitoring services	449,294			449,294
0053	Data processing services	1,019,801		791	1,020,592
0061	Community services	4,035			4,035
0071	Principal on long-term debt	54,145	1,490,000		1,544,145
0072	Interest on long-term debt	3,806	1,122,164		1,125,970
0073	Bond issuance costs and fees	806	3,356		4,162
0081	Facilities acquisition and construction	292,737			292,737
0095	Payments for juvenile justice alternative education programs	2,400			2,400
0099	Other intergovernmental charges	93,399			93,399
6030	Total expenditures	27,706,142	2,615,520	3,283,787	33,605,449
1100	Excess (deficiency) of revenues over expenditures	419,060	400,346	(167,212)	652,194
	OTHER FINANCING SOURCES (USES):				
7912	Sale of real or personal property	7,589		5,387	12,976
7915	Transfers in			356,889	356,889
8911	Transfers out	(356,889)			(356,889)
	Total other financing sources and (uses)	(349,300)	-0-	362,276	12,976
1200	Net change in fund balances	69,760	400,346	195,064	665,170
0100	Fund balances – beginning	11,220,051	2,670,824	(194,385)	13,696,490
3000	Fund balances – ending	$ 11,289,811	$ 3,071,170	$ 679	$ 14,361,660

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

Net change in fund balances – total governmental funds (from C-2)	$ 665,170
Amounts reported for *governmental activities* in the statement of activities (B-1) are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation of $ 2,197,971 exceeds capital outlay of $ 1,272,254 in the current period.	(925,717)
Governmental funds report proceeds from the sale of assets as revenue. However, in the government-wide statement of activities, the cost of the assets disposed is offset against the proceeds to report gain or loss on the disposition of assets. The cost of assets disposed was $ 12,245 (asset cost of $ 254,956 less accumulated depreciation of $ 242,711).	(12,245)
Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by actuary and involves multiple factors. The amount of pension expense reported was $ 4,707,746 less than the amount reported in the funds.	(4,707,746)
Governmental funds report OPEB payments as expenditures. However, in the governmental activities statement of activities, the OPEB cost is calculated by actuary and involves multiple factors. The amount of OPEB expense reported was $ 1,955,220 less than the amount reported in the funds.	(1,955,220)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. The decrease in unearned property tax revenues for the general fund was $ 26,404 and the increase in unearned property tax revenues in the debt service fund amounted to $ 13,863.	12,541
Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activity but is not reported in governmental funds.	(52,541)
Change in net pension deferred outflows of resources and pension deferred inflows of resources.	3,744,533
Change in net OPEB deferred outflows of resources and OPEB deferred inflows of resources.	1,720,474
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. The amount of debt principal payments for general obligation bonded debt $ 1,515,000; and capital leases $ 29,145.	1,544,145
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Current year amortization of bond premium is $ 91,451.	91,451
The fair market values of donated assets provide current financial resources to governmental funds, but are not recognized in the funds. The fair market value of donated assets in the current year was $ 21,175.	21,175

(continued)

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt $ 10,541.	$ 10,541
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2)	(18,441)
Change in net position of governmental activities (see B-1)	$ 138,120

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION Exhibit D-1

PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS Page 1 of 1

JUNE 30, 2019

Data Control Codes		Governmental Activities Internal Service Funds (See H-3)
	ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	
	Assets:	
1110	Cash and cash equivalents	$ 665,718
	Total assets	665,718
	Deferred outflows of resources:	
1700	Deferred outflows of resources	
	Total deferred outflows of resources	-0-
	Total assets and deferred outflows of resources	$ 665,718
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:	
	Liabilities:	
2110	Accounts payable	$ 2,902
2165	Accrued expenses payable	97,780
	Total liabilities	100,682
	Deferred inflows of resources:	
2600	Deferred inflows of resources	
	Total deferred inflows of resources	-0-
	Net position:	
3900	Unrestricted net position	565,036
	Total net position	565,036
	Total liabilities, deferred inflows of resources, and net position	$ 665,718

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2019

Exhibit D-2
Page 1 of 1

	Governmental Activities Internal Service Funds (See H-4)
Operating Revenues:	
Charges for services	$ 41,248
Total operating revenues	41,248
Operating Expenses:	
Insurance claims and expenses	56,514
Payroll costs	5,873
Total operating expenses	62,387
Operating income	(21,139)
Nonoperating Revenues:	
Interest and investment revenue	2,698
Total nonoperating revenues	2,698
Change in net position	(18,441)
Net position – beginning	583,477
Net position – ending	$ 565,036

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS – INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2019

	Governmental Activities Internal Service Funds (See H-5)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers	$ 41,248
Claims paid	(96,555)
Net cash used by operating activities	(55,307)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Net cash provided (used) by noncapital financing activities	-0-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Net cash provided (used) by capital and related financing activities	-0-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and dividends	2,698
Net cash provided by investing activities	2,698
Net decrease in cash and cash equivalents	(52,609)
Cash and cash equivalents – beginning	718,327
Cash and cash equivalents – ending	$ 665,718
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating loss	$(21,139)
Change in accounts payable	(5,491)
Change in accrued expenses payable	(28,677)
Net cash used by operating activities	$(55,307)

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

COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

		Agency Funds
ASSETS:		
Cash and cash equivalents	$	378,418
Receivables:		
Other receivables		425
Total assets	$	378,843
LIABILITIES:		
Employee benefits payable	$	203,155
Amounts due to student groups		175,657
Due to others		31
Total liabilities	$	378,843

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

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Columbia-Brazoria Independent School District (the "District") is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven-member Board of Trustees elected by the District's residents.

The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources and it complies with the requirements of the appropriate version of Texas Education Agency's (the “TEA”) *Financial Accountability System Resource Guide* (the "Resource Guide" or “FASRG”) and the requirements of contracts and grants of agencies from which it receives funds.

The District’s Financial Statements are in accordance with GASB Statement No. 34, “Basic Financial Statements and Management Discussion and Analysis for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus” which provides additional guidance for the implementation of GASB No. 34, and GASB Statement No. 38 “Certain Financial Statement Disclosures” which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management’s discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user’s of financial reports to assess a government’s operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District’s financial reporting entity. Based on these considerations, the District’s basic financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". The District receives support from various PTO, booster clubs and foundation organizations. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements. Therefore, there are no component units included within the reporting entity.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that 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 function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes; state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, and debt service.

The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes and interest earnings. Expenditures include all costs associated with related debt service.

The District reports the following proprietary funds:

The *internal service funds* account for the District's self-funded unemployment compensation pool and its self-funded worker's compensation program. The revenues of these funds are received from both the general and special revenue funds, and District employees and the expenses are comprised of claims paid on behalf of the District and its employees. The general fund is contingently liable for liabilities of these funds. Sub-fund accounting is employed to maintain the integrity of the various self-insurance activities of the District. See Notes 13 and 14 for additional discussion of the District's self-insurance plans.

The unemployment compensation plan is intended to be self-supporting and contributions are increased periodically to cover the cost of claims and administrative fees. As of June 30, 2019, liabilities totaled $ 2,902 and net position of the unemployment compensation pool was $ 129,248.

The worker's compensation program provides for incurred but not reported costs for worker's compensation claims through the establishment of undiscounted liability accounts and net position. As of June 30, 2019, liabilities totaled $ 97,780 and net position of the worker's compensation program was $ 435,788.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Additionally, the District reports the following fiduciary funds:

The *agency funds* accounts for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Fair Value - The District categorizes its fair value measurements within 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.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 4 for additional discussion of interfund receivables and payables.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD 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 BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2018, upon which the levy for the 2018-19 fiscal year was based, was $ 1,248,883,360. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to penalty and Interest charges plus 20% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2019, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were $ 1.0400 and $ 0.21806 per $ 100 valuation, respectively, for a total of $ 1.25806 per $ 100 valuation.

Current tax collections for the year ended June 30, 2019 were 97.2% 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, 2019, property taxes receivable, net of estimated uncollectible taxes, totaled $ 890,805 and $ 203,421 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, fuel and printer/copier paper) of governmental funds. 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. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and unearned revenue when received in the governmental funds. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, and construction in progress are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated
fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

Assets	Years
Buildings and improvements	10-40
Furniture and equipment	5-10
Vehicles	5-10

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position”. Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, “Items Previously Reported as Assets and Liabilities”, had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures or expenses in the current period. Net pension obligation is reported as long term liabilities and pension expense, based upon actuarial data, is reported as expenses within functional categories.

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 the debt is reported as other financing resources. 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. Net pension costs are reported, based upon required contributions for the current period, are reported within functional categories as expenditures.

Pensions

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

Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic 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.

Budgetary Data

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund). The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

The Official Budget for the year ending June 30, 2019 was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to June 30, 2018. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on June 25, 2019.

Encumbrance Accounting

The District utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent and expenditure for the period, only a commitment to expend resources.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the school district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

The District had no outstanding encumbrances as of June 30, 2019.

Fund Balances

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees, delegates authority to the Superintendent or the Executive Director of Business Services. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Beginning with fiscal 2011, the District implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

As of June 30, 2019, non-spendable fund balances includes $ 5,474 for inventories and $ 299,942 for prepaid items in the General Fund. Non-spendable fund balance in Special Revenue Funds includes $ 6,749 for inventories (National School Breakfast and Lunch Program Fund) and $ 1,809 for prepaid items. Restricted fund balances included $ 3,071,170 for Debt Service Fund. Unassigned fund balance includes $ 10,984,395 in the General Fund, and $(7,879) in the National School Breakfast and Lunch Program Fund.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

GASB No. 83 “Certain Asset Retirement Obligations” was issued in November 2016. This statement was implemented and did not have a material effect on the District’s financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 “Fiduciary Activities” was issued in January 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 87 “Leases” was issued in June 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2019.

GASB No. 88 “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements” was issued in April 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 89 “Accounting for Interest Cost Incurred before the End of a Construction Period” was issued in June 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90 “Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61” was issued in August 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB No. 91 “Conduit Debt Obligations” was issued in May 2019. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more.

See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents as reported on the statement of net position at June 30, 2019 are as follows:

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts)	$ 100	$	$	$ 100
Financial Institution Deposits:				
Demand deposits	5,039,998	665,718	378,418	6,084,134
Local Government Investment Pools:				
Texas Class	5,274,989			5,274,989
Lone Star Investment	1,180,734			1,180,734
TexStar	480,430			480,430
	$ 11,976,251	$ 665,718	$ 378,418	$ 13,020,387

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

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

At June 30, 2019, in addition to petty cash of $ 100, the carrying amount of the District's cash, savings, and time deposits was $ 6,084,134. The financial institutions balances were $ 6,656,835 at June 30, 2019. Bank balances of $ 250,000 were covered by federal depository insurance, and $ 6,406,835 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits (Continued)

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

Depository:

a. Name of bank: Prosperity Bank, West Columbia, Texas.
b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $ 13,727,621.
c. Largest cash, savings and time deposit combined account balance amounted to $ 11,953,296 and occurred on February 6, 2019.
d. Total amount of FDIC coverage at the time of the largest combined balance was $ 250,000.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the “investment policy”) that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District’s deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an “Investment Strategy Statement” that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District’s investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District’s management believes it complied with the requirements of the PFIA and the District’s investment policy.

The District’s Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio’s as they relate to both the adopted investment strategy statements and Texas State law.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. A securities lending program as permitted by Government Code 2256.0115;
5. Banker's acceptances as permitted by Government Code 2256.012;
6. Commercial paper as permitted by Government Code 2256.013;
7. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
8. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
9. Public funds investment pools as permitted by Government Code 2256.016.

The District invests in Lone Star, TexStar, and Texas Class to provide its liquidity needs. Lone Star, TexStar, and Texas Class are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Lone Star, TexStar, and Texas Class are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund.

Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $ 1.00, although this cannot be fully guaranteed. Lone Star, TexStar, and Texas Class are rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit. At June 30, 2019 Texas Class, Lone Star and TexStar had a weighted average maturity of 51 days, 26 days, and 19 days respectively. Although Texas Class, Lone Star and TexStar portfolios had a weighted average maturity of 51 days, 26 days, and 19 days, respectively, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the District's investments are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The following table includes the portfolio balances of all investment types of the District at June 30, 2019.

	Book Value	Market Value	Weighted Average Maturity (In Days)
Local Government Investment Pools:			
Texas Class	$ 5,274,989	$ 5,274,989	51
Lone Star Investment	1,180,734	1,180,734	26
TexStar	480,430	480,430	19
Total	$ 6,936,153	$ 6,936,153	

Credit Risk - As of June 30, 2019, the LGIPs (which represent 100% of the unrestricted portfolio) are rated AAAm by Standard and Poor's or AAA by Finch.

Interest rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

At June 30, 2019, 100% of the investment portfolio was invested in AAAm or AAA rated LGIPs (2(a)7 like pools).

Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by GASB No. 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The District holds no investments which is measured at fair value at June 30, 2019.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended June 30, 2019, and holds no direct investments in derivatives at June 30, 2019.

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES

Receivables and Allowances

Receivables as of June 30, 2019, for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Major Funds				
	General Fund	Debt Service Fund	Other Governmental Funds	Total	Fiduciary Funds (Agency)
Receivables:					
Property taxes	$ 969,844	$ 214,279	$	$ 1,184,123	$
Receivables from other governments	3,989,932	146,277	475,442	4,611,651	
Other receivables	30,703			30,703	
Gross receivables	4,990,479	360,556	475,442	5,826,477	-0-
Less: allowance for uncollectibles	79,039	10,858		89,897	
Net total receivables	$ 4,911,440	$ 349,698	$ 475,442	$ 5,736,580	$ -0-

Receivables/Payables from/to 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. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of June 30, 2019 are summarized below.

Fund	State Entitlements	Federal Grants	State Grants and Other	Total
Major Funds:				
General	$ 3,161,625	$	$ 828,307	$ 3,989,932
Debt service			146,277	146,277
Other governmental funds		286,206	189,236	475,442
Total	$ 3,161,625	$ 286,206	$ 1,163,820	$ 4,611,651

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

Deferred Inflows and Outflows of Resources/Unearned Revenue

Governmental Funds

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of June 30, 2019, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	Deferred Inflows of Resources (Unavailable)	Unearned Revenue
Delinquent property taxes receivable (general fund)	$ 815,524	$
Delinquent property taxes receivable (debt service fund)	170,681	
Federal food commodities		90
Advance Funding:		
Federal grants		7,150
State grants and other		1,252
Totals	$ 986,205	$ 8,492

Governmental Activities

Governmental activities defer the recognition of pension and OPEB expense for contributions made from the measurement date (August 31, 2018) to the current year-end of June 30, 2019 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)

As of June 30, 2019, the various components of deferred inflows and outflows of resources and unearned revenue reported in the governmental activities were as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Unearned Revenue
TRS deferred inflows and outflows of resources – Pension	$ 5,772,144	$ 1,095,103	$
TRS deferred inflows and outflows of resources – OPEB	1,283,149	3,835,755	
Pension contributions subsequent to the measurement date	544,540		
OPEB contributions subsequent to the measurement date	117,344		
Federal food commodities			90
Advance funding			8,402
Totals	$ 7,717,177	$ 4,930,858	$ 8,492

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Receivables and Payables

Interfund balances at June 30, 2019 consisted of the following individual fund receivables and payables:

Fund	Receivable	Payable
General Fund:		
Special Revenue Funds	$ 308,191	$
Fiduciary Funds	31	
	308,222	-0-
Special Revenue Funds:		
General Fund:		
Title I, Part A – Improving Basic Programs		42,094
IDEA B, Formula		72,385
IDEA B, Preschool		2,195
Vocational Education – Basic		1,117
Title II Part A: Teacher and Principal Training and Recruitment		1,051
Title III, English Language Acquisition and Language Enhancement		35
Federally funded special revenue funds		6,231
Instructional Materials Allotment		182,666
State-funded special revenue funds		417
	-0-	308,191

(continued)

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)

Fund	Receivable	Payable
Fiduciary Funds:		
General Fund:		
Payroll Clearing Account	$	$ 31
	-0-	31
Total	$ 308,222	$ 308,222

Interfund Transfers

During the year ended June 30, 2019 the District made two transfers between funds:

Transferring Fund	Receiving Fund	Amount
General Fund	Food Service (Special Revenue Fund)	$ 356,889
		$ 356,889

The Board of Trustees approved this transfer, as transfers of operational funds to cover planned expenditures.

NOTE 5. CAPITAL ASSETS

Changes in Capital Assets and Accumulated Depreciation

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2019:

	Balance 07-01-18	Additions	Transfers/ Retirements	Balance 06-30-19
Non-Depreciated Capital Assets:				
Land	$ 1,488,426	$	$	$ 1,488,426
Construction in progress	24,600	330,440	(318,664)	36,376
Total non-depreciated	1,513,026	330,440	(318,664)	1,524,802
Capital Assets:				
Buildings and improvements	69,553,869	28,329	318,664	69,900,862
Furniture, equipment and vehicles	9,763,422	934,660	(254,956)	10,443,126
Total depreciated	79,317,291	962,989	63,708	80,343,988
Total additions/retirements		$ 1,293,429	$(254,956)	

NOTE 5. CAPITAL ASSETS (Continued)

Changes in Capital Assets and Accumulated Depreciation (Continued)

	Balance 07-01-18	Additions	Transfers/ Retirements	Balance 06-30-19
Accumulated Depreciation:				
Buildings and improvements	30,516,046	$ 1,640,731	$	$ 32,156,777
Furniture, equipment and vehicles	6,770,680	557,240	(242,711)	7,085,209
Total	37,286,726	$ 2,197,971	$(242,711)	39,241,986
Net depreciated capital assets	42,030,565			41,102,002
Net capital assets	$ 43,543,591			$ 42,626,804

See Note 1 for additional information regarding capital assets.

Depreciation Expense

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments,* depreciation expense of the governmental activities was charged to functions as follows:

Data Control Codes	Function	Amount
0011	Instruction	$ 1,403,892
0012	Instructional resources and media services	19,656
0021	Instructional leadership	32,839
0023	School leadership	155,143
0031	Guidance, counseling, and evaluation services	29,313
0033	Health services	2,123
0034	Student transportation	232,501
0035	Food service	21,178
0036	Extracurricular activities	80,901
0041	General administration	113,505
0053	Data processing services	106,920
	Total depreciation expense	$ 2,197,971

NOTE 6. LONG-TERM DEBT

General Obligation Bonds

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation reported are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts are amortized using the straight-line method.

The following is a summary of the District's general obligation bonded debt at June 30, 2019:

Date of Issue	Original Issue	Final Maturity	Interest Rates %	Outstanding Balance
2009	$ 250,000	2020	5.25	$ 60,000
2011 REF	7,560,000	2030	2.00 - 4.00	7,065,000
2011 CAB	1,031,571	2027	3.88	1,393,671
2012 REF	7,640,000	2031	2.00 - 3.50	5,780,000
2013	5,000,000	2038	3.00 - 4.50	3,950,000
2014 REF	9,475,000	2034	3.75 - 4.00	9,475,000
2015 REF	6,715,000	2025	.55 - 2.85	4,935,000
	$ 37,671,571			$ 32,658,671

The following is a summary of general obligation bond transactions for the year ended June 30, 2019:

General Obligation Bond Balance - July 1, 2018	$ 34,121,130
Accretion	52,541
Maturities	(1,515,000)
General Obligation Bond Balance - June 30, 2019	$ 32,658,671

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

Year Ended June 30	Principal	Interest	Total Requirement
2020	$ 1,470,000	$ 1,099,807	$ 2,569,807
2021	1,610,000	1,069,451	2,679,451
2022	1,620,000	1,034,239	2,654,239
2023	1,665,000	989,204	2,654,204
2024-2028	8,240,000	4,251,925	12,491,925
2029-2033	13,605,000	2,548,810	16,153,810
2034-2038	4,885,000	447,875	5,332,875
Totals	$ 33,095,000	$ 11,441,311	$ 44,536,311

NOTE 6. LONG-TERM DEBT (Continued)

General Obligation Bonds (Continued)

The $ 436,329 difference between the general obligation bonds outstanding at June 30, 2019 of $ 32,658,671 and the general obligation bond principal requirements of $ 33,095,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2019.

Debt Issuances and Defeased Debt

During the year ended June 30, 2008, the District issued $ 8,854,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2007, $ 8,770,000 for the partial refunding of previously issued Unlimited Tax Schoolhouse Building, Series 1999. The term bonds mature in 2025 and call for an interest rate of from 4.00% to 4.10% and the capital appreciation bonds mature in 2017 and call for an interest rate of 4.10% to 4.20%. The District placed the proceeds of the refunding, in the amount of $ 9,031,347, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded.

The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of $ 726,724. The economic gain resulting from the transaction was $ 502,916. The outstanding balance of these defeased bonds at June 30, 2019 was $ 5,345,000 and the balance held in escrow was $ 5,362,350.

During the year ended June 30, 2012, the District issued $ 8,119,998 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2011, $ 8,120,000 for the partial refunding of previously issued Unlimited Tax Schoolhouse Building, Series 2004. The term bonds mature in 2030 and call for an interest rate of from 2.00% to 4.00% and the capital appreciation bonds mature in 2027 and call for an interest rate of 3.88%. The District placed the proceeds of the refunding, in the amount of $ 8,879,004, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of $ 691,825. The economic gain resulting from the transaction was $ 499,094. These defeased bonds were paid in full during the year ended June 30, 2014.

NOTE 6. LONG-TERM DEBT (Continued)

Debt Issuances and Defeased Debt (Continued)

During the year ended June 30, 2012, the District issued $ 7,979,997 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2012, $ 7,980,000 for the partial refunding of previously issued Unlimited Tax Schoolhouse Building, Series 2004. The term bonds mature in 2031 and call for an interest rate of from 2.00% to 3.50% and the capital appreciation bonds mature in 2017 and call for an interest rate of 1.30%. The District placed the proceeds of the refunding, in the amount of $ 8,462,946, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of $ 930,072. The economic gain resulting from the transaction was $ 804,660. These defeased bonds were paid in full during the year ended June 30, 2014.

During the year ended June 30, 2014, the District issued $ 5,000,000 in Unlimited Tax Schoolhouse Building Bonds, Series 2013, $ 5,000,000 for the construction of facilities. These term bonds mature in 2038 and call for an interest rate of from 3.00% to 4.50%.

During the year ended June 30, 2014, the District issued $ 9,475,000 in Unlimited Tax Refunding Bonds, Series 2014, for the complete refunding of previously issued Unlimited Tax Schoolhouse Building, Series 2004. The term bonds mature in 2034 and call for an interest rate of from 3.75% to 4.00%. The District placed the proceeds of the refunding, in the amount of $ 9,841,462, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of $ 1,055,667. The economic gain resulting from the transaction was $ 990,687. These defeased bonds were paid in full during the year ended June 30, 2014.

During the year ended June 30, 2016, the District issued $ 6,715,000 in Unlimited Tax Refunding Bonds, Series 2015, for the complete refunding of previously issued Unlimited Tax Refunding Bonds, Series 2007. The term bonds mature in 2025 and call for an interest rate of from .55% to 2.85%. The District placed the proceeds of the refunding in the amount of $ 6,849,780, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of $ 849,671. The economic gain resulting from the transaction was $ 762,626. These defeased bonds were paid in full during the year ended June 30, 2016.

NOTE 6. LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2019 was as follows:

	Balance 07-01-18	Additions	Reductions	Balance 06-30-19	Due Within One Year
Long-Term Debt:					
General Obligation Bonds:					
Term Bonds	$ 32,780,000	$	$ 1,515,000	$ 31,265,000	$ 1,470,000
Capital appreciation bonds	1,341,130	52,541		1,393,671	54,602
	34,121,130	52,541	1,515,000	32,658,671	1,524,602
Capital leases	140,577		29,145	111,432	29,145
Net pension liability	5,543,520	8,134,034	3,420,725	10,256,829	
Net OPEB liability	10,219,121	2,231,568	320,825	12,129,864	
Components of Long-Term Debt:					
Premium on general obligation bonds	1,080,355		91,451	988,904	91,451
	$ 51,104,703	$ 10,418,143	$ 5,377,146	$ 56,145,700	$ 1,645,198

NOTE 7. LEASES

Capital Leases

During the year ended June 30, 2019, the District entered into a capital lease for Xerox copiers throughout the District. The lease, which carries no requirement for an interest payment, calls for a monthly payment of $ 2,429 for sixty months.

NOTE 7. LEASES (Continued)

Capital Leases (Continued)

The following is a schedule of future minimum lease payments under capital lease, together with the net present value of the minimum lease payments, as of June 30, 2019:

Year Ended June 30	Amount
2020	$ 29,145
2021	29,145
2022	29,145
2023	23,997
Total	111,432
Less amount representing interest	-0-
Net present value of minimum lease payments	$ 111,432

During the year ended June 30, 2019, the District paid capital lease (the buy-out obligation) principal in the amount of $ 29,145 and no interest.

NOTE 8. DEFINED BENEFIT PENSION PLANS

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The report may be obtained on the Internet at http://www.trs.state.tx.us/amount/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

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 credit 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.

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

<u>Contribution Rates</u>

	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Employer # 1284 – 2018 Employer Contributions	$	627,746
Employer # 1284 – 2018 Member Contributions	$	626,260
Employer # 1284 – 2018 NECE On-behalf Contributions	$	866,173
Employer # 1284 – 2019 Medicare Part D Contributions	$	72,585

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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 age surcharge.

- When a school district or charter school 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.

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Benefit changes during the year	None
Ad-hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2017 and adopted in July 2018.

Discount Rate

The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan 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 pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

Asset Class	Target Allocation*	Long-Term Expected Arithmetic Real Rate of Return**	Expected Contribution to Long-Term Portfolio Returns***
Global Equity:			
U.S.	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	8.9%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10.2%	1.3%
Stable Value:			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	-	-
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
Real Return:			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	-	-
Risk Parity:			
Risk Parity	5%	3.7%	0.2%
Inflation Expectation			2.3%
Alpha			-0.8%
Total	100%		7.2%

* *Target allocations are based on the FY2016 policy model.*
** *Capital market assumptions come from Aon Hewitt (2017 Q4)*
*** *The volatility drag results from the conversion between arithmetic and geometric mean returns.*

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 (6.907%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the Net pension liability	$ 15,480,015	$ 10,256,829	$ 6,028,351

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

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

At June 30, 2019, the District reported a liability of $ 10,256,829 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	$ 10,256,829
State's proportionate share that is associated with the District	5,227,306
Total	$ 15,484,135

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 and rolled forward to August 31, 2018. 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, 2017 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0186344062% which was an increase of 0.0012971525% from its proportion measured as of August 31, 2017.

Changes since the prior Actual 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 Total Pension Liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the Net Pension Liability.

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, 2019, the District recognized pension expense of $ 1,401,595 and revenue of $ 866,173 for support provided by the State.

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2019, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 63,933	$ 251,662
Changes in actuarial assumptions	3,698,081	115,565
Difference between projected and actual investment earnings	533,040	727,656
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,477,090	220
Contributions paid to TRS subsequent to the measurement date	544,540	
Total	$ 6,316,684	$ 1,095,103

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

Year Ended June 30,	Pension Expense Amount
2020	$ 1,238,286
2021	828,728
2022	711,437
2023	760,892
2024	687,736
Thereafter	449,962

NOTE 9. 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 Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in a separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The report may be obtained on the Internet at http://www.trs.state.tx.us/amount/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents are not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. 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 the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-CareMonthly for Retirees
Effective September 1, 2018 thru December 31, 2018

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

* or surviving spouse

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded as 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 percent of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.75 percent 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.

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Contribution Rates

	2018	2019
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%

Employer # 1284 – 2018 Employer Contributions	$	167,589
Employer # 1284 – 2018 Member Contributions	$	53,767
Employer # 1284 – 2018 NECE On-behalf Contributions	$	220,356

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 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 $ 182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional $ 212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to $ 394.6 million.

Actuarial Assumptions
The total OPEB liability in the August 31, 2017 was rolled forward to August 31, 2018. The actual valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in this OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in this report.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2018 TRS annual pension actuarial valuation:

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

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate*	3.69%*
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs.
Payroll Growth Rate	3.00%
Projected Salary Increases**	3.05% to 9.05%**
Healthcare Trend Rates***	6.75% to 11.00%***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018
** Includes Inflation at 2.30%
*** Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and initial medical trend rate of 6.75% for non-Medicare retirees. Initial prescription drug trend rate of 11.00% for all retirees. The first year medical trend for Medicare retirees (107.74%) reflects the anticipated return of the Health Insurer Fee (HIF) in 2020. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 9 years.

In this valuation, the impact of the Cadillac Tax 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 2.50%
- 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 retires 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.

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27 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 project 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 (3.69%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District’s proportionate share of the Net OPEB Liability	$ 14,438,705	$ 12,129,864	$ 10,303,421

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2019, the District reported a liability of $ 12,129,864 for its proportionate share of 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	$ 12,129,864
State’s proportionate share that is associated with the District	6,965,623
Total	$ 19,095,487

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 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, 2017 thru August 31, 2018.

At June 30, 2019 the employer’s proportion of the collective net OPEB liability was 0.0242932932% compared to 0.0234996610% as of June 30, 2018.

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

Changes since the prior Actual 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:

1. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the Total OPEB Liability.

2. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the Total OPEB Liability.

3. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the Total OPEB liability.

4. The discount rate was changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This change lowered the Total OPEB liability $ 2.3 billion.

5. Changes in Benefit Terms Since the Prior Measurement Date - The 85th Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

    a. Created a high-deductible health plan that provides zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
    b. Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
    c. Allowed the System to provide other, appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
    d. Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
    e. Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute $ 200 per month toward their health insurance premiums.

For the year ended June 30, 2019, the District recognized OPEB expense of $ 580,960 and revenue of $ 220,356 for support provided by the State.

NOTE 9. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)

At June 30, 2019, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 643,687	$ 191,427
Changes in actuarial assumptions	202,415	3,644,328
Difference between projected and actual investment earnings	2,121	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	434,926	
Contributions paid to TRS subsequent to the measurement date	117,344	
Total	$ 1,400,493	$ 3,835,755

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

Year Ended June 30,	OPEB Expense Amount
2020	$ (423,296)
2021	(423,296)
2022	(423,296)
2023	(423,697)
2024	(423,927)
Thereafter	(435,094)

NOTE 10. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

Program or Source	CFDA Number	Total
Direct Costs:		
School Health and Related Services (SHARS)	---	$ 975,402
Medicaid Administrative Claiming Program (MAC)	93.778	27,694
Clean Fuels Program	20.519	128,000
Total direct costs		$ 1,131,096

NOTE 11. LOCAL AND INTERMEDIATE REVENUES

For the year ended June 30, 2019, local and intermediate revenues for governmental funds consisted of the following:

	General Fund	Debt Service Fund	Other Funds	Total
Property Taxes	$ 13,605,617	$ 2,860,844	$	$ 16,466,461
Investment income	201,466	23,554		225,020
Food sales			305,311	305,311
Penalties, interest and other tax related income	182,522	38,513		221,035
Co-curricular income	122,051			122,051
Gifts and bequests	35,016			35,016
Rents	11,980			11,980
Other	49,238			49,238
Total	$ 14,207,890	$ 2,922,911	$ 305,311	$ 17,436,112

NOTE 12. 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, 2019, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

NOTE 13. SELF-INSURED UNEMPLOYMENT COMPENSATION

Effective October 1, 2011, the District replaced their unemployment compensation insurance policy with a public entity risk-sharing pool that is managed by an independent third party administrator. Claims are evaluated and administered by this third party administrator and paid by the District. Claims administration has been provided by TASB Risk Management Fund during the year ended June 30, 2019.

The risk-sharing pool meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the risk-sharing pool.

The accrued liability for unemployment compensation pool of $ 2,902 includes estimated incurred but not reported claims. This reported in the fund at June 30, 2019 is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated.

NOTE 14. SELF-INSURED WORKERS' COMPENSATION

Effective September 1, 1998, the District replaced their workers' compensation insurance policy with a self-insured plan that is managed by an independent third party administrator. Claims are evaluated and administered by this third party administrator and paid by the District. Claims administration has been provided by Claim Administrative Services, Inc. during the year ended June 30, 2019.

The accrued liability for Workers' Compensation self-insurance of $ 97,780 includes estimated incurred but not reported claims. This liability reported in the fund at June 30, 2019, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

The following year-by-year exposure details the number of annual claims.

Fiscal Year	Claims
2009-10	33
2010-11	35
2011-12	37
2012-13	32
2013-14	38
2014-15	29
2015-16	36
2016-17	50
2017-18	64
2018-19	44
10 Period Average	40

Changes in the workers' compensation claims liability amounts in fiscal 2017-2018 and 2018-2019 are represented below:

	Beginning of Fiscal-Year/ Period Liability	Current-Year/ Period Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year/ Period-End
2017-2018 Workers' Compensation	$ 124,973	$ 23,743	$ 22,259	$ 126,457
2018-2019 Workers' Compensation	126,457	8,476	37,153	97,780

NOTE 15. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 16. INTERLOCAL AGREEMENT

The District participates in an interlocal agreement with Damon Independent School District (DISD) for various services. The District is providing the following services for DISD: 1) maintenance services to school buildings and grounds, 2) technology network services for maintenance of technology equipment, 3) technology technician services for routine relocation and set up of computer, phone and other peripheral device, 4) transportation mechanic for routine maintenance to vehicles, 5) administrator services for supervisory, training, or appraisal services, 6) school district officer services for security, and 7) class instruction for Spanish through video stream.

The amounts charged and collected for personnel services are coded to revenue account 5729, Services to Other School Districts in the amount of $ 14,668. The reimbursement of other expenditures is coded to various functions and accounts within the General Fund, in the amount of $ 6,689. The total collected from Damon ISD for the year ended June 30, 2019 was $ 26,894.

NOTE 17. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 4, 2019, the date which the financial statements were available to be issued.

On August 21, 2019, the District issued $ 6,950,000 of Series 2019 Unlimited Tax Refunding Bonds, maturing in 2029. The bonds have stated interest rates of 3.00% - 4.00%. The bonds are to be paid from annual ad valorem interest and bonded indebtedness.

The following is a schedule of principal maturity for the Series 2019 Unlimited Tax Refunding Bonds:

Maturing February 11,	Principal
2020	$ 310,000
2021	25,000
2022	80,000
2023	85,000
2024-2026	1,550,000
2027-2029	4,900,000
Total	$ 6,950,000

APPENDIX D

Form of Opinion of Bond Counsel

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FINAL

IN REGARD to the authorization and issuance of the "Columbia-Brazoria Independent School District Unlimited Tax School Building Bonds, Series 2020" (the *Bonds*), dated March 1, 2020, in the aggregate original principal amount of $10,190,000 we have reviewed the legality and validity of the issuance thereof by the Columbia-Brazoria Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 2021 through 2040, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. 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. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. 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.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "COLUMBIA-BRAZORIA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2020"

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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