PRELIMINARY OFFICIAL STATEMENT
Dated October 9, 2020

NEW ISSUE - BOOK-ENTRY-ONLY

ENHANCED/UNENHANCED RATING: Moody's - Applied For
PSF Guarantee - Applied For
(See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein)

In the opinion of Bond Counsel (defined herein), assuming continuing compliance by the District (defined herein) after the delivery of the Bonds with certain covenants contained in the Order (defined herein) 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 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. See "TAX MATTERS" herein.

$106,830,000*
COMAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Comal, Bexar, Guadalupe, Hays and Kendall Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

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

The Comal Independent School District Unlimited Tax Refunding Bonds, Series 2020 (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the Comal Independent School District (the "District") and are payable from 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 Chapters 1207 and 1371, Texas Government Code, as amended (collectively, the "Act"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 25, 2020. As permitted by the provisions of the Act, the Board, in the Bond Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate" and together with the Bond Order, the "Order") establishing the final pricing terms for the Bonds.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable on February 1 and August 1 of each year, commencing February 1, 2021, until stated maturity or prior redemption, 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 and interest on the Bonds will be payable by the Paying Agent/Registrar, initially Zions Bancorporation, National Association, dba Amegy Bank, 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 to (i) refund a portion of the District's currently outstanding unlimited ad valorem tax-supported obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for professional services related to the costs of issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein.

The District has applied for and 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

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The Bonds are offered for delivery when, as and if issued and received by the initial purchaser 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 Escamilla & Poneck, 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, Norton Rose Fulbright US LLP, Dallas, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about November 19, 2020.

RAYMOND JAMES **FROST BANK**

* *Preliminary, subject to change.*

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

$106,830,000*
COMAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Comal, Bexar, Guadalupe, Hays and Kendall Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

CUSIP No. Prefix 199820(1)

Stated Maturity (February 1)	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix(1)
2021	12,495,000			
2022	100,000			
2023	100,000			
2024	7,370,000			
2025	7,610,000			
2026	7,840,000			
2027	8,075,000			
2028	8,335,000			
2029	12,045,000			
2030	12,175,000			
2031	11,735,000			
2032	11,405,000			
2033	7,545,000			

(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. If two or more bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

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* *Preliminary, subject to change.*

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

COMAL INDEPENDENT SCHOOL DISTRICT
1404 IH 35 North
New Braunfels, Texas 78132

BOARD OF TRUSTEES

ADMINISTRATION - FINANCE CONNECTED

Name	Title	Total Years Experience	Total Years With District
Andrew Kim	Superintendent of Schools	26	7
David Andersen	Chief Financial Officer	35	7
Kathryn G. Hanlon	Director for Accounting	40	16
Crystal Hermesch	Executive Director for School Finance	8	8

CONSULTANTS AND ADVISORS

ABIP, P.C. San Antonio, Texas	Certified Public Accountants
Escamilla & Poneck, LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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Chief Financial Officer
Comal Independent School District
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New Braunfels, Texas 78132
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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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 respective 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 The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC or the affairs of the Texas Education Agency described under 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 THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION WITH RESPECT TO THE BONDS.

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

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TABLE OF CONTENTS

The cover page hereof, the appendices and schedule 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 or incorporated elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT .... The Comal Independent School District (the "District"") is located primarily in Comal County, Texas with portions extending into Bexar, Guadalupe, Hays and Kendall Counties, Texas. The District is approximately 589 square miles in area and serves a population of approximately 161,737. 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 2033, inclusive.*

Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable initially on February 1, 2021 and semiannually on August 1 and February 1 thereafter until stated maturity or prior redemption.

DATED DATE .... November 1, 2020.

REDEMPTION .... The District reserves the right to redeem the Bonds maturing on or 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. If two or more bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order See "THE BONDS - Redemption Provisions of the Bonds" herein.

SECURITY FOR THE BONDS ... The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the principal of and interest on the Bonds is expected to be guaranteed by the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

PERMANENT SCHOOL FUND GUARANTEE .... The District has applied for and 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.

TAX MATTERS .... In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

PAYING AGENT/REGISTRAR ... The initial Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas.

BOOK-ENTRY-ONLY SYSTEM . The District intends to use the Book-Entry-Only System of The Depository Trust Company. See "BOOK-ENTRY-ONLY SYSTEM" herein.

MUNICIPAL BOND RATING ..... The District has made application to Moody's Investors Service, Inc. ("Moody's") for a contract rating on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. Moody's generally rates unlimited tax bonds guaranteed by the Permanent School Fund "Aaa." The results will be made available as soon as possible. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.

FUTURE BOND ISSUES .... The District has formed a community committee to study the District's needs and to consider a potential bond election in May 2021. Otherwise, the District does not anticipate the issuance of additional ad valorem unlimited 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 on or about November 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 Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

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* *Preliminary, subject to change.*

PRELIMINARY OFFICIAL STATEMENT

relating to

$106,830,000*
COMAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Comal, Bexar, Guadalupe, Hays and Kendall Counties, Texas)
UNLIMITED TAX SCHOOL REFUNDING BONDS, SERIES 2020

INTRODUCTION

General

This Official Statement of the Comal Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's $106,830,000* Unlimited Tax Refunding 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 historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the District. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement, which includes the cover page, the schedule, 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).

COVID - 19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition, certain local officials, including the County Judges of Comal County and Bexar County and the Mayors of the City of New Braunfels and the City of San Antonio, have also declared a local states of disaster. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Due to a previous spike in COVID-19 cases, prior executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. The Governor has since issued a number of these including, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov/texas/gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

* *Preliminary, subject to change.*

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

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

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The District continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the District. While the potential impact of the Pandemic on District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

PLAN OF FINANCING

Purpose

The Bonds are being issued to: (i) refund a portion of the District's currently outstanding unlimited tax-supported obligations, identified in Schedule I attached hereto (the "Refunded Obligations") and (ii) pay professional services related to the costs of issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their call date at par. The refunding is being undertaken to reduce the annual debt service requirements and will result in debt service savings for the District.

Refunded Obligations

The principal of and interest due on the Refunded Obligations are to be paid on the respective redemption dates of such Refunded Obligations, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas (the "Escrow Agent"). The Order (as defined herein) provides that from the proceeds of the sale of the Bonds, together with other funds of the District, if any, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective maturity dates and redemption dates, as applicable.

SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the "Sufficiency Certificate") of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal and interest on the Refunded Obligations, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. In certain instances, such cash may be invested in direct obligations of the United States which mature on or before any redemption date.

By the deposit of cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effectuated the defeasance of the Refunded Obligations in accordance with applicable law and thereafter the District will have no further responsibility with respect to the payment of such Refunded Obligations including any subsequent insufficiency in the Escrow Fund. It is the opinion of Bond Counsel in reliance upon the Sufficiency Certificate that, as a result of such defeasance, the Refunded Obligations will no longer be payable from ad valorem taxes but will be payable solely from the cash held for such purpose by the Escrow Agent and that the Refunded Obligations will be defeased and are not to be included in or considered to be indebtedness of the District.

Defeasance of the Refunded Obligations will cancel the Permanent School Fund Guarantee relating thereto.

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, along with a cash contribution from the District, will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	$______________
Plus [Net] Reoffering Premium on the Bonds	
Accrued Interest on the Bonds	
District Cash Contribution	
Total Sources	$______________
<u>Uses of Funds</u>	
Deposit to Escrow Fund	$______________
Underwriter's Discount	
Cost of Issuance	
Contingency	
Total Uses	$______________

THE BONDS

General Description

The Bonds will be dated November 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 February 1, 2021, until stated maturity or upon redemption prior to maturity. 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 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 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 ("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 Chapters 1207 and 1371, Texas Government Code, as amended (collectively, the “Act”), and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on June 25, 2020. As permitted by the provisions of the Act, the Board, in the Bond Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the “Approval Certificate,” and together with the Bond Order, the “Order”) establishing the final pricing terms for the Bonds.

Security for Payment

The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

Permanent School Fund Guarantee

The District has applied for and 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 Escamilla & Poneck, LLP, San Antonio, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the 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 November 19, 2020.

Future Bond Issues

The District does not anticipate the issuance of additional ad valorem tax-supported debt in the next 12 months, except for potentially issuing refunding obligations for debt service savings.

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 an 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. Additionally, if two or more serial bonds of consecutive maturity are combined into one or more “term” Bonds (the “Term Bonds”) by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

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 the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, 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.

In the Order, the District reserves the right in the case of a redemption to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date or (ii) the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding, and the rescission shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default. The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owners, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "BOOK-ENTRY-ONLY SYSTEM").

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

Defeasance

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Governmental Obligations (defined below), that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment; provided, however, that the sufficiency of deposits shall be certified by an independent public accounting firm, the District's Financial Advisor, or another qualified third party in connection with a defeasance of the Bonds. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The Order provides that "Governmental 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 have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements, 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. An Authorized Official may limit these securities as deemed necessary in connection with the sale of the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Governmental Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State 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 State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. 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, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated 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 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 owner 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 the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, 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 aggregate principal amount of the Bonds required to be held by registered owners for consent to any such amendment, addition, 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. Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, 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.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, dba Amegy Bank, 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.

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

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

Replacement Bonds

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 take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the 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 changed the composition of the SLB to a five member board from a three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members are appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a "permanent school fund liquid account" in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposed a constitutional amendment to the Texas Constitution to increase the permissible amount of distributions to the ASF from revenue derived during a year from PSF land or other properties from $300 million to $600 million annually by one or more entities. That constitutional change was approved by State voters at a referendum on November 5, 2019. See "2011 and 2019 Constitutional Amendments."

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

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

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a total-return-based formula instead of the current-income-based formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium (the "Distribution Measurement Period"), in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the State Board of Education ("SBOE"), taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total

Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), at the request of the Chairman of the SBOE with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

In accordance with legislation enacted during the 86th Session and effective September 1, 2019, the PSF has established an investment account for purposes of investing cash received from the GLO to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash has previously been included in the PSF valuation, but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the liquidity account consisting of 20% cash, 40% equities and 40% fixed income. The liquidity account equity allocation consists of U.S. large cap, U.S. small/mid cap and international large cap equities of 20%, 5% and 15%, respectively. The liquidity account fixed income allocation consists of core bonds, Treasury Inflation Protection Securities and short duration fixed income categories of 5%, 10% and 25%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2020 modifications, have been or will be implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 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 within those portfolios. The Attorney General has advised the SBOE in Op. Tex. Att'y Gen. No. GA-0998 (2013) ("GA-0998"), that the PSF is not subject to requirements of certain State competitive bidding laws with respect to the selection of investments. In GA-0998, the Attorney General also advised that the SBOE generally must use competitive bidding for the selection of investment managers and other third party providers of investment services, such as record keeping and insurance, but excluding certain professional services, such as accounting services, as State law prohibits the use of competitive bidding for specified professional services. GA-0998 provides guidance to the SBOE in connection with the direct management of alternative investments through investment vehicles to be created by the SBOE, in lieu of contracting with external managers for such services, as has been the recent practice of the PSF. The PSF staff and the Fund's investment advisor are tasked with advising the SBOE with respect to the implementation of the Fund's asset allocation policy, including the timing and manner of the selection of any external managers and other consultants.

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

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

Management and Administration of the Fund

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017. The State Law Capacity increased from $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 Final IRS Regulations will result in a substantial increase in the amount of bonds guaranteed under the Guarantee Program, and as the amount of guaranteed bonds approaches the IRS Limit, it is expected that the SBOE will seek changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. The implementation of the Charter School Bond Guarantee Program is also expected to increase the amount of guaranteed bonds.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At September 10, 2020, there were 182 active open-enrollment charter schools in the State and there were 840 charter school campuses active under such charters (though as of such date, 19 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 6.15% in March 2020. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 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 July 31, 2020, the Charter District Reserve Fund contained $39,357,006, which represented approximately 1.56% 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.

Infectious Disease Outbreak

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

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

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

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

TEA Continuity of Operations

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

Impact of COVID-19 on School Districts and Charter Districts

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

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 July 31, 2020, the PSF had a book value of $36,431,148,233 and a market value of $47,621,722,583. July 31, 2020 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)]

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(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 and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $133,188,149,265, 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. Using the IRS Limit of $117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), net of the Program's 5% reserve, as of July 31, 2020, 95.92% of Program capacity was available to the School District Bond Guarantee Program and 4.08% 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	$63,197,504,047	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	1,860,135,000	3,346	84,397,900,203

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(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 July 31, 2020 (based on unaudited data, which is subject to adjustment), there were $90,353,133,727 of bonds guaranteed under the Guarantee Program, representing 3,388 school district issues, aggregating $87,833,583,727 in principal amount and 61 charter district issues, aggregating $2,519,550,000 in principal amount. At July 31, 2020, the capacity allocation of the Charter District Bond Guarantee Program was $4,551,091,422 (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 have been based on a number of financial and political reasons, as well as commitments made by the SLB in some years to transfer certain sums to the ASF. The new calculation base described above has been used to determine all payments to the ASF from the Fund beginning with the 2012-13 biennium. The broader base for the Distribution Rate calculation could increase transfers from the PSF to the ASF, although the effect of the broader calculation base has been somewhat offset since the 2014-2015 biennium by the establishment by the SBOE of somewhat lower Distribution Rates than for the 2012-2013 biennium. In addition, the changes made by the amendment that increased the calculation base that could affect the corpus of the Fund include the decisions that are made by the SLB or others that are, or may in the future be, authorized to make transfers of funds from the PSF to the ASF.

The constitutional amendments approved on November 8, 2011 also provided authority to the GLO or 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 each county in which the District is located is the responsibility of the respective appraisal district for that county (collectively, 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 governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

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.

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM PROPERTY TAXATION - District Application of Tax Code" 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 Texas Tax Code as Applied to the District

The Texas Property Tax Code (the "Texas Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Comal Appraisal District, Bexar Appraisal District, Guadalupe Appraisal District, Hays Central Appraisal District, and Kendall Appraisal District (each an "Appraisal District") are responsible for appraising property within the District as of January 1 of each year. The appraisal values set by each Appraisal District are subject to review and change by the respective Appraisal Review Board (each an "Appraisal Review Board") which is appointed by the respective Appraisal District's Board of Directors. Such appraisal rolls, as approved by the respective Appraisal Review Board, are used by the District in establishing its tax roll and tax rate.

The District grants the state mandated exemption to the market value of residence homesteads of $25,000, and the District has granted an additional local option exemption of 20% of the market value of residence homesteads.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000, and the disabled are also granted an exemption of $10,000.

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; and the Comal County Tax Assessor-Collector collects the District's taxes.

The District does not permit split payments or discounts. Installments are allowed under provisions of the Texas Property Tax Code.

The District has entered into an Economic Development Agreement authorized under Chapter 313, limiting the taxable appraised value for maintenance and operations purposes to $100,000,000, beginning in Tax Year 2014 and extending through Tax Year 2021, with TXI Operations, LP Hunters Cement.

The District does not tax freeport property.

On April 26, 2012, the District adopted a resolution authorizing it to continue to tax "goods-in-transit" for the 2013 tax year and beyond.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2020-2021 school year, the District was notified by the Texas Education Agency that its Tier One local revenues exceeded the District's state funding entitlement and therefore would be required to reduce its "excess local revenue" in accordance with H.B. 3 (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Revenue Level In Excess of Entitlement"). Accordingly, it is anticipated the District will elect to use "Option 3" (purchase of attendance credits from the State) in order to reduce its local revenue.

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, 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 13,1968 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

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 could be adopted by a school district was the sum of $0.17 and the product of the State Compression Percentage multiplied by $1.00. For the 2019 tax year, the state compression percentage was set at 93%.
>
> For the 2020 and subsequent tax years, the maximum 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 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 as refunding bonds and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt". 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.

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

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

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

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

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

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

EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan with the State of Texas (the "Plan"). The Plan is administered by the Teacher Retirement System of Texas ("TRS"). Aside from the District's contribution to the TRS it is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the state of Texas. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. See "Notes to Basic Financial Statements Year Ended June 30, 2019, Note (13) - Defined pension plan," in the audited financial statements of the District 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 post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to Basic Financial Statements Year Ended June 30, 2019, Note (14) - Defined other postemployment benefit plan" in the audited financial statements of the District as set forth in APPENDIX C hereto.

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

INVESTMENTS

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, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1: or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph (except for those described in clause (6)), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than “AAA” or its equivalent, and conform to the requirements relating to the eligibility of investment pools to receive and invest funds. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAA-m” or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than “A” or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the Agency or a third party designated by the Agency; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Category of Investments	Amount	Percentage	Term of Investments
Certificates of Deposit Agencies	$ 6,286,812	3.40%	2 years
Money Markets and Investment Pools	97,183,567	51.70%	Daily liquidity
Flexible Repurchase Agreement	84,430,982	44.90%	Daily liquidity
Total	$187,901,361	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 “PLAN OF FINANCING - Refunded Obligations,” “THE BONDS” (exclusive of the subcaptions “Permanent School Fund Guarantee,” “Payment Record,” “Future Bond Issues,” 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 two sentences of this paragraph and the information under the subcaption “Litigation” 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 Norton Rose Fulbright US LLP, Dallas, Texas, counsel to the Underwriters, whose fee is contingent on the issuance 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 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

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

The delivery of the Bonds is subject to the opinion of Escamilla & Poneck, 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 individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel’s opinion appears in APPENDIX D hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District 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 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 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 owner thereof for federal income taxes from the date of the issuance of the Bonds. Bond Counsel has not been retained by the District to monitor such post-issuance compliance.

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 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. Pursuant to Public Law No. 115-97 (i.e., the Tax Cuts and Jobs Act), for tax years beginning after December 31, 2017, the corporate alternative minimum tax is repealed. 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 required to 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

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement while 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 the timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB") via the Electronic Municipal Market Access system ("EMMA") through an internet website accessible at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the Texas Education Agency's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee, to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to 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, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2020/2021" and "2021/2022 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C. The District will update and provide this information within six months after the end of each fiscal year.

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 ("Rule 15c2-12"). 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 the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement (15) incurrence of a financial obligation of the District (as deemed by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties. 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. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, 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

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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 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 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 District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-l2 to the date of such amendment as well as such changed circumstances and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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 registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule l5c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-l2 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to 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 financial information and operating data so provided.

Compliance with Prior Undertakings

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

OTHER PERTINENT INFORMATION

Cancelled Bond Election

The District's Board of Trustees called for a bond election to be held in May 2020 but due to the Pandemic and other considerations the bond election was cancelled by the Board. The District intended on using bond proceeds authorized from that election to, among other things, purchase land for future school sites. With the election being canceled, the Board opted to purchase land for future school sites using its fund balance but also adopted a reimbursement resolution declaring its intention to reimburse itself these funds once a successful bond election has been held and bonds sold. This use of the fund balance may cause the District to experience a short term funding shortfall until the new property tax revenues are received. The District is considering the issuance of maintenance tax notes to address such a shortfall with such maintenance tax notes anticipated be repaid within two to three months after issuance. The District currently anticipates that these tax notes could be issued in an amount up to $15,000,000 and would mature no later than February 1, 2021 and could be callable as early as December 1, 2020.

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

The District has made application to Moody's Investors Service, Inc. ("Moody's") for a contract rating on the Bonds based on the guarantee thereof by the Texas Permanent School Fund. Moody's generally rates unlimited tax bonds guaranteed by the Permanent School Fund "Aaa." The results will be made available as soon as possible. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell, or hold securities.

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 a price equal to the initial offering prices to the public, as shown on page -ii- hereof, less an underwriting discount of $___________, 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 Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering price, 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 respective 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.

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

The Order authorized an Authorized Official to approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its execution by an Authorized Official for further use in the reoffering of the Bonds by the Underwriters in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. § 240.15c2-12, as amended.

COMAL INDEPENDENT SCHOOL DISTRICT

/s/ ____________________________________

Authorized Official

SCHEDULE I

REFUNDED OBLIGATIONS*

Series	Principal Amount ($)	Maturities	Interest Rates/ Yield (%)	Redemption Date and Price
Comal Independent School District				
Unlimited Tax Refunding Bonds, Series 2012	1,130,000	2-1-2022	5.000	2-1-2021 @ 100.00%
	1,190,000	2-1-2023	5.000	2-1-2021 @ 100.00%
	1,245,000	2-1-2024	5.000	2-1-2021 @ 100.00%
	1,315,000	2-1-2025	5.000	2-1-2021 @ 100.00%
	1,380,000	2-1-2026	5.000	2-1-2021 @ 100.00%
	1,440,000	2-1-2027	4.000	2-1-2021 @ 100.00%
	1,510,000	2-1-2028	5.000	2-1-2021 @ 100.00%
Comal Independent School District				
Unlimited Tax Refunding Bonds, Series 2012A	7,680,000	2-1-2024	4.000	2-1-2021 @ 100.00%
	7,995,000	2-1-2025	4.000	2-1-2021 @ 100.00%
	8,320,000	2-1-2026	4.000	2-1-2021 @ 100.00%
	8,660,000	2-1-2027	4.000	2-1-2021 @ 100.00%
	9,015,000	2-1-2028	4.000	2-1-2021 @ 100.00%
	14,420,000	2-1-2029	4.000	2-1-2021 @ 100.00%
	14,765,000	2-1-2030	4.000	2-1-2021 @ 100.00%
	14,550,000	2-1-2031	4.000	2-1-2021 @ 100.00%
	14,330,000	2-1-2032	4.000	2-1-2021 @ 100.00%
	10,590,000	2-1-2033	3.000	2-1-2021 @ 100.00%

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* *Preliminary, subject to change.*

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APPENDIX A

Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information

Total 2020 Appraised Valuation of District	$27,574,039,277
Less: Exemptions/Exclusions(1)	7,514,312,675
Total 2020 Taxable Assessed Valuation(2)(3)	$20,059,726,602

Source: Comal County Appraisal District, Guadalupe County Appraisal District, Hays County Appraisal District, Kendall County Appraisal District, and Bexar Appraisal District.

(1) *For a detailed description of the Exemptions/Exclusions see "2020 Tax Exemptions/Exclusions Allowed" herein.*

(2) *Includes valuations against which a freeze of tax levy has been granted for persons 65 years or older.*

(3) *The District has entered into a Chapter 313 valuation agreement; however, since this value is used in the calculation and levying of the District's Interest and Sinking Fund tax rate, the entire value is included in Taxable Assessed Valuation. See "AD VALOREM PROPERTY TAXATION - The Texas Tax Code as Applied to the District."*

Direct Debt Information*

Total Indebtedness Payable from Ad Valorem Taxes: (at 11-01-2020)	
Maintenance and Operations Tax Debt	$ -0-
Unlimited Tax Bond Debt	709,805,179*
Total All Bonded Indebtedness Payable from Taxes	709,805,179*
Less Estimated Interest & Sinking Fund Consolidated Balance (at 7-1-2020)	16,409,196
NET BONDED INDEBTEDNESS PAYABLE FROM AD VALOREM TAXES	$693,395,983*

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Direct Debt Ratios*

Ratio of Net Bonded Debt ($693,395,983*) to 2020 Taxable Assessed Valuation ($20,059,726,602)	3.46%
Ratio of Net Bonded Debt ($693,395,983*) to 2020 Total Appraised Valuation ($27,574,039,277)	2.51%
Ratio of Total Bonded Debt ($709,805,179*) to 2020 Taxable Assessed Valuation ($20,059,726,602)	3.54%
Ratio of Total Bonded Debt ($709,805,179*) to 2020 Total Appraised Valuation ($27,574,039,277)	2.57%

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Non-Funded Debt

Operating Lease Obligations

At June 30, 2019, the District was obligated under operating leases for portable buildings and copiers. Future minimum lease payments on these operating leases amount to $243,580 due in 2020. Future minimum lease payments on these operating leases are as follows:

2020	$243,580
2021	128,281
2022	128,281
Total	$500,142

Rent expense incurred under operating leases for the year ended June 30, 2019 was $672,287.

Source: District's 2019 Annual Financial Report.

Authorized But Unissued General Obligation Bonds

The District currently has no voted authorized but unissued bonding authority. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance obligation, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes. The District's Board of Trustees called for a bond election to be held in May 2020 but due to the Pandemic and other considerations the election was cancelled by the Board. The District intended on using bond proceeds authorized from that election to, among other things, purchase land for future school sites. With the election being canceled, the District opted to purchase land for future school sites using its fund balance but also adopted a reimbursement resolution declaring its intention to reimburse itself these funds if a successful bond election has been held and bonds sold. This use of the fund balance may cause the District to experience a short term funding shortfall until the property tax revenues which are due by January 31, 2021 are received for the 2020 tax year. The District is considering the issuance of maintenance tax notes to address such a shortfall with such maintenance tax notes anticipated be repaid within two to three months after issuance. The District currently anticipates that these tax notes could be issued in an amount up to $15,000,000 and would mature no later than February 1, 2021 and could be callable as early as December 1, 2020.

Anticipated Issuance of Additional Bonds

The District has formed a community committee to study the District's needs and to consider a potential bond election in May 2021. Otherwise, the District does not anticipate the issuance of additional ad valorem unlimited tax-supported debt in the next twelve months, except for potentially issuing refunding obligations for debt service savings.

Population and Per Capita Indebtedness

2020 District Population Estimate	161,737
2020 Per Capita Taxable Assessed Valuation ($20,059,726,602)	$124,026.83
Per Capita Direct Bonded Debt ($709,805,179*)	$4,388.64

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Enrollment and Average Daily Attendance Data

2020/21 Enrollment (at 9-1-2020)	25,295
2020/21 Estimated Average Daily Attendance (at 9-1-2020)	23,712
2020/21 Taxable Assessed Valuation ($20,059,726,602) Per Enrollment	$793,031.29

Valuation and Bonded Debt Data

Area of District in Square Miles	589
Area of District in Acres	376,960
Total Direct Bonded Debt ($709,805,179*) Per Acre	$1,882.97
2020 Taxable Assessed Valuation ($20,059,726,602) Per Acre	$53,214.47
2020 Total Appraised Value ($27,574,039,277) Per Acre	$73,148.45

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

Outstanding Debt by Issues

		Original Amount	Amount Outstanding at 11-01- 2020 (1)
Unlimited Tax:			
Series 2005-A	Dated 03-01-2005 - Refunding	$ 56,619,965	$ 3,839,965
Series 2012	Dated 05-01-2012 - Refunding(2)	15,240,000	1,085,000
Series 2012-A	Dated 11-01-2012 - Refunding(2)	146,390,000	7,340,000
Series 2015	Dated 01-01-2015 - Refunding	79,745,000	71,170,000
Series 2015-B	Dated 07-01-2015 - New Money	118,755,000	113,705,000
Series 2015-A	Dated 08-01-2015 - Refunding	133,150,000	121,365,000
Series 2016	Dated 10-01-2016 - Refunding	51,660,214	46,405,214
Series 2017	Dated 07-01-2017 - New Money	227,160,000	225,625,000
Series 2017	Dated 12-01-2017 - Refunding	13,335,000	12,440,000
Series 2020	Dated 11-01-2020 - Refunding (the "Bonds")(2)	106,830,000 (2)	106,830,000 (2)
Total Debt			$709,805,179

(1) *Unaudited. Includes the Bonds and excludes the Refunded Obligations.*
(2) *Preliminary, subject to change.*

Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending June 30 in Each of the Years 2021 - 2042 Inclusive)*

2021	$ 37,195,000	
2022	20,557,331	
2023	23,112,634	
2024	32,340,000	
2025	34,270,000	20.78%
	-	
2026	35,875,000	
2027	35,980,000	
2028	35,090,000	
2029	36,385,000	
2030	37,435,000	46.24%
	-	
2031	35,595,000	
2032	37,030,000	
2033	34,965,000	
2034	43,140,000	
2035	44,900,000	73.80%
	-	
2036	46,895,000	
2037	28,929,527	
2038	27,310,688	
2039	31,705,000	
2040	25,955,000	96.46%
	-	
2041	12,265,000	
2042	12,875,000	100.00%
	$709,805,179	

* *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

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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:

	Gross Debt		Percent	Amount
Political Subdivision	Amount	As Of	Overlapping	Overlapping
Alamo Community College District	$ 437,790,000	9-30-2020	2.08%	$ 9,106,032
Bexar County	1,944,900,000	9-30-2020	2.08%	40,453,920
Bexar County Hospital District	932,030,000	9-30-2020	2.08%	19,386,224
Comal County	140,350,000	9-30-2020	75.83%	106,427,405
Comal County WC&ID #6	19,805,000	9-30-2020	100.00%	19,805,000
Fair Oaks Ranch, City of	4,880,000	9-30-2020	5.40%	263,520
Garden Ridge, City of	12,700,000	9-30-2020	100.00%	12,700,000
Guadalupe County	9,405,000	9-30-2020	4.30%	404,415
Hays County	490,815,154	9-30-2020	0.18%	883,467
Johnson Ranch MUD	12,965,000	9-30-2020	100.00%	12,965,000
Kendall County	23,440,000	9-30-2020	0.02%	4,688
Meyer Ranch MUD	2,745,000	9-30-2020	100.00%	2,745,000
New Braunfels, City of	182,815,000	9-30-2020	41.75%	76,325,263
San Antonio, City of	2,184,020,000	9-30-2020	0.17%	3,712,834
Schertz, City of	75,775,0000	9-30-2020	22.08%	16,731,120
Selma, City of	20,745,000	9-30-2020	7.81%	1,620,185
Estimated Overlapping Funded Debt				$323,534,073
Comal I.S.D.	709,805,179[(1)]	11-01-2020	100.00%	709,805,179[(1)]
Total Direct and Estimated Overlapping Funded Debt				$1,033,339,252
Ratio to 2020 Taxable Assessed Valuation ($20,059,726,602)				5.15%
Per Capita (161,737) Direct and Estimated Overlapping Debt				$6,389.01

[(1)] *Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.*

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

Tax Year	Assessed Valuation[(1)]	Tax Rate	% Collections Current	% Collections Total	Year Ending
2009	$ 8,960,238,971	$1.310	97.86%	100.71%	8-31-10
2010	9,571,078,348	1.370	98.26%	100.28%	8-31-11
2011	9,422,216,696	1.430	98.35%	100.08%	8-31-12
2012	9,188,228,672	1.430	98.79%[(2)]	100.80%	8-31-13
2013	9,776,905,211	1.430	98.39%	99.30%	6-30-14[(2)]
2014	10,277,987,674	1.390	97.71%	99.54%	6-30-15
2015	11,417,099,888	1.390	98.25%	100.13%	6-30-16
2016	12,452,679,629	1.390	98.41%	99.98%	6-30-17
2017	13,625,809,002	1.390	98.53%	100.05%	6-30-18
2018	16,291,673,338	1.390	98.23%	99.61%	6-30-19
2019	18,117,477,610	1.320	n.a.%	n.a.%	6-30-20
2020	20,059,726,602	1.280	(in process of collection)		6-30-21

[(1)] *2009 through 2018 are from District's audit report; 2019 and 2020 are from Bexar Appraisal District, Comal Appraisal District, Kendall Appraisal District, Guadalupe Appraisal District, and Hays Central Appraisal District.*

[(2)] *During the year ended August 31, 2014, the District elected to change its fiscal year end from August 31 to June 30 beginning June 30, 2014.*

Tax Rate Distribution

Tax Year	2020	2019	2018	2017	2016
Local Maintenance	$0.93	$0.97	$1.04	$1.04	$1.04
Interest & Sinking Fund	.35	.35	.35	.35	.35
Total	$1.28	$1.32	$1.39	$1.39	$1.39

2020 Tax Exemptions/Exclusions Allowed*

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

State Mandated $25,000 General Homestead Exemptions	$ 969,142,331
$10,000 Over 65 Homestead Exemptions	139,958,719
100% Disabled or Unemployable Homestead Exemptions	892,973,688
Local Optional Percentage Loss	2,443,569,248
Veterans Exemption Loss	40,205,247
Productivity Loss	2,658,439,616
Pollution Control	86,837,720
10% Per Year Cap on Residential Homestead	161,026,150
Freeport	115,271,887
Other	6,888,069
Total Exemptions and Exclusions	$7,514,312,675

Source: Bexar Appraisal District, Comal Appraisal District, Kendall Appraisal District, Guadalupe Appraisal District, and Hays Central Appraisal District.

* *The District has entered into a Chapter 313 value limitation agreement. Since this value is used in the calculation and levying of the District's Interest and Sinking Fund tax rate, it is not included in the above exemptions and deductions.*

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

Last Ten Years Ended June 30	Ending Balance
2010 and prior	$ 342,672
2011	93,726
2012	122,715
2013	142,811
2014	320,345
2015	450,244
2016	559,376
2017	651,365
2018	1,003,512
2019	3,875,101
Total	$7,561,867

Source: District's 2019 Annual Financial Report.

Taxpayers by Classification

Classification	2020 Assessed Valuation	Percent of Total	2019 Assessed Valuation	Percent of Total	2018 Assessed Valuation	Percent of Total
Single Family Residential	$ 16,549,836,789	60.02%	$ 15,379,333,207	62.07%	$ 13,560,675,181	61.06%
Multi-Family Residential	686,580,217	2.49%	586,991,915	2.37%	508,274,818	2.29%
Vacant - Platted Lots/Tracts	1,133,191,939	4.11%	968,192,377	3.91%	916,461,089	4.13%
Acreage-Open Space (Land and Improvements)	3,529,596,373	12.80%	2,191,501,657	8.84%	1,922,512,619	8.66%
Rural Non-qualified	94,441,797	0.34%	836,199,882	3.37%	751,840,109	3.39%
Commercial Real Property	2,615,619,983	9.49%	2,062,100,541	8.32%	1,898,216,371	8.55%
Industrial Real Property	698,964,867	2.53%	783,244,238	3.16%	753,965,486	3.40%
Oil, Gas and Other Minerals	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real and Tangible Utilities	215,639,462	0.78%	173,320,494	0.70%	167,903,296	0.76%
Tangible - Commercial	994,158,512	3.61%	942,096,919	3.80%	856,240,904	3.86%
Tangible - Industrial	782,332,461	2.84%	575,962,500	2.33%	648,009,105	2.92%
Tangible - Mobile Homes	57,849,972	0.21%	56,244,988	0.23%	47,607,651	0.21%
Real Residential Inventory	184,058,078	0.67%	194,754,355	0.79%	155,051,758	0.70%
Special Inventory	31,768,827	0.12%	27,737,707	0.11%	20,594,672	0.09%
Total Valuation	$27,574,039,277	100.00%	$24,777,680,780	100.00%	$22,207,353,059	100.00%
Less: Exemptions & Exclusions	7,514,312,675		6,660,203,170		5,915,679,721	
Net Taxable Assessed Valuation	$20,059,726,602		$18,117,477,610		$16,291,673,338	

Source: Bexar Appraisal District, Comal Appraisal District, Kendall Appraisal District, Guadalupe Appraisal District, and Hays Central Appraisal District.

Ten Largest Taxpayers

Name	**Type of Property**	**2020 Net Assessed Valuation**	**Percent of Total 2020 Taxable Assessed Valuation**
TXI Operations LP Hunters Cement	Cement Manufacturing	$ 348,218,440	1.74%
Cemex Cement of Texas LP	Crushed Limestone	288,859,860	1.44%
Sysco San Antonio Inc.	Food Service Distribution	141,147,340	0.70%
A L 95 Creekside Town Center LP	Real Estate Development	124,498,365	0.62%
Caterpillar Inc.	Construction Equipment	104,462,010	0.52%
Central Texas Corridor Hospital Co LLC	Medical	97,385,585	0.49%
Walmart Inc. #6016	Wholesale Distribution Center	91,882,210	0.46%
LCRA Transmission Services	Utility	58,353,452	0.29%
MTC Apartments Lookout Canyon LLC	Apartment Complex	46,900,000	0.24%
Pulte Homes of Texas LP	Developer	14,167,450	0.07%
Total		$1,315,874,712	6.57%

Source: Comal Appraisal District and Bexar Appraisal District.

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2020/21

Interest & Sinking Fund Balance at 6-30-2020 (unaudited)	$16,409,196
Estimated Income from $0.35 I&S Tax Rate @ 97% Collected Using 2020 Taxable Assessed Valuation of $20,059,726,602	68,102,772
Estimated Other Income	50,000
Estimated Total Funds Available	84,561,968
2020/21 Debt Service Requirement	66,850,250
Estimated Interest & Sinking Fund Balance at 6-30-2021	$17,711,718

CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE BONDS AT ASSUMED RATES

FISCAL YEAR 6-30	CURRENTLY OUTSTANDING DEBT SERVICE	LESS REFUNDED DEBT SERVICE[1]	PLUS: THE BONDS AT ASSUMED RATES[1] PRINCIPAL DUE 2/1	INTEREST DUE 8/1	INTEREST DUE 2/1	TOTAL	GRAND TOTAL ALL ALL DEBT SERVICE
2021	$ 55,853,912.50	$ 2,376,600.00	$ 12,495,000		$ 877,937.50	$ 13,372,937.50	$ 66,850,250.00
2022	57,405,912.50	5,883,200.00	100,000	$ 1,568,450.00	1,568,450.00	3,236,900.00	54,759,612.50
2023	59,263,312.50	5,886,700.00	100,000	1,566,950.00	1,566,950.00	3,233,900.00	56,610,512.50
2024	61,942,887.50	13,562,200.00	7,370,000	1,565,450.00	1,565,450.00	10,500,900.00	58,881,587.50
2025	62,442,287.50	13,577,750.00	7,610,000	1,454,900.00	1,454,900.00	10,519,800.00	59,384,337.50
2026	62,538,487.50	13,582,200.00	7,840,000	1,340,750.00	1,340,750.00	10,521,500.00	59,477,787.50
2027	61,038,087.50	13,580,400.00	8,075,000	1,223,150.00	1,223,150.00	10,521,300.00	57,978,987.50
2028	58,535,937.50	13,601,400.00	8,335,000	1,102,025.00	1,102,025.00	10,539,050.00	55,473,587.50
2029	58,264,887.50	17,060,300.00	12,045,000	977,000.00	977,000.00	13,999,000.00	55,203,587.50
2030	57,809,487.50	16,828,500.00	12,175,000	796,325.00	796,325.00	13,767,650.00	54,748,637.50
2031	54,502,087.50	16,022,900.00	11,735,000	613,700.00	613,700.00	12,962,400.00	51,441,587.50
2032	54,526,687.50	15,220,900.00	11,405,000	379,000.00	379,000.00	12,163,000.00	51,468,787.50
2033	51,044,950.00	10,907,700.00	7,545,000	150,900.00	150,900.00	7,846,800.00	47,984,050.00
2034	54,686,650.00						54,686,650.00
2035	54,731,500.00						54,731,500.00
2036	54,930,500.00						54,930,500.00
2037	54,407,300.00						54,407,300.00
2038	45,633,050.00						45,633,050.00
2039	35,496,350.00						35,496,350.00
2040	28,366,950.00						28,366,950.00
2041	13,522,000.00						13,522,000.00
2042	13,518,750.00						13,518,750.00
	$1,110,461,975.00	$158,090,750.00	$106,830,000	$12,738,600.00	$13,616,537.50	$133,185,137.50	$1,085,556.362.50

(1) *Preliminary, subject to change.*

2021/2022 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 6-30-2021	$17,711,718
Estimated Income from $0.35 I&S Tax Rate @ 97% Collected Using 2021 Estimated Taxable Assessed Valuation of $21,328,533,387	72,410,371
Estimated Other Income	50,000
Total Estimated Funds Available	90,172,089
2021/22 Debt Service Requirement	54,759,613
Estimated Interest & Sinking Fund Balance at 6-30-2022	$35,412,476

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 system see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS."

Year Ended:	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/30/2016**	**6/30/2015**
REVENUE					
Local Sources	$239,043,041	$222,141,240	$201,702,783	$185,937,644	$171,838,006
State Sources	24,788,758	24,187,272	27,489,624	27,310,786	26,313,053
Federal Sources	15,942,161	13,707,639	14,388,218	12,930,922	12,186,272
Total all Revenue	284,773,960	260,036,151	243,580,625	226,179,352	210,337,331
EXPENDITURES					
Instruction and Instruction Related	122,522,940	112,759,883	108,727,189	104,466,695	96,064,928
Instruction & School Leadership	19,574,099	18,168,123	16,954,333	16,084,528	11,988,501
Support Services - Student (Pupil)	38,067,548	38,361,351	27,763,272	32,252,257	33,101,203
General Administration	6,989,355	4,653,437	4,439,452	4,021,124	3,987,506
Support Services-Non-student Based	27,515,215	25,179,754	25,593,325	23,215,273	20,248,100
Debt Service	56,839,643	57,399,795	47,607,511	43,450,082	34,808,939
Capital Outlay	77,016,453	83,204,351	50,478,110	8,729,852	1,602,480
Intergovernmental Charges	8,187,014	1,760,712	1,544,831	1,487,705	1,380,271
Ancillary Services	3,591,287	3,704,046	3,512,790	3,291,801	3,045,900
Total all Expenditures	360,303,296	345,191,452	292,126,953	236,999,317	206,227,828
Total Other Resources and (Uses) Plus Special Resource	212,296	265,654,374	(2,436,653)	149,101,666(1)	(59,806)
Excess (Deficiency) of Revenues and Other Resources Over (Under) Expenditures and Other Uses	(75,317,398)	180,499,073	(50,982,981)	138,28,701	4,049,697
Fund Balance Beginning of Year	353,134,815	172,635,742	223,618,723	85,337,022	81,287,325
Fund Balance End of Year	$277,817,417	$353,134,815	$172,635,742	$223,618,723(1)	$ 85,337,022
Fund Balance - General Fund(2)	$ 67,478,859	$ 62,927,330	$ 60,493,632	$ 57,116,723	$ 55,542,087

Year Ended:	**6/30/2019**	**6/30/2018**	**6/30/2017**	**6/30/2016**	**8/31/2015**
Assessed Valuation	$16,291,673,338	$13,625,809,002	$12,452,679,629	$11,417,090,888	$10,278,987,674
Total Tax Rate	$1.39	$1.39	$1.39	$1.39	$1.39
Percent of Debt Service to Total all Expenditures	15.78%	16.63%	16.30%	18.33%	16.88%

Source: The District's audited financial statements.

(1) *During fiscal year 2016 the District issued two series of new money bonds with combined proceeds of $147,389,971.00.*

(2) *The District's estimated general fund balance for fiscal year ending June 30, 2020 is approximately $53,797,441. The reduction in fund balance is related to the District purchasing land for future facility needs. The District adopted a reimbursement resolution declaring its intention to reimburse the General Fund from future bond proceeds. See "OTHER PERTINENT INFORMATION – Cancelled Bond Election" herein.*

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.

General

The District is located primarily in Comal County, Texas with portions extending into Bexar, Guadalupe, Hays and Kendall Counties, Texas. District's 2020 population estimate - 161,737.

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 second Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

School Facility	Year Occupied	Grade Span	Enrollment (At 9-1-2020)
Rahe Bulverde Elementary School	1966	K thru 5	453
Goodwin Frazier Elementary School	1966	PreK thru 5	586
Canyon High School	1972	9 thru 12	2,455
Smithson Valley Middle School	1976	6 thru 8	723
Smithson Valley High School	1981	9 thru 12	3,142
Canyon Middle School	1987	6 thru 8	986
Church Hill Middle School	1987	6 thru 8	818
Bill Brown Elementary School	1991	PreK thru 5	719
Alamo Colleges-Memorial ECHS	2006	9 thru 12	382
Arlon Seay Elementary	1997	K thru 5	404
Spring Branch Middle School	1998	6 thru 8	574
Specht Elementary School	2002	PreK thru 5	786
Hoffmann Lane Elementary	2002	K thru 5	766
Rebecca Creek Elementary	2002	PreK thru 5	535
Startzville Elementary	2008	PreK thru 5	417
Freiheit Elementary	2008	PreK thru 5	691
Morningside Elementary	2008	PreK thru 5	697
Mountain Valley Middle School	2008	6 thru 8	806
Canyon Lake High School	2008	9 thru 12	1,100
Timberwood Park Elementary	2008	K thru 5	727
Johnson Ranch Elementary	2009	K thru 5	658
Oak Creek Elementary	2009	PreK thru 5	623
Comal Discipline Center	1995	7 thru 12	12
Clear Spring Elementary	2010	K thru 5	695
Comal Academy	2010	9 thru 12	35
Garden Ridge Elementary	2010	K thru 5	838
Kinder Ranch Elementary	2011	K thru 5	513
Indian Springs Elementary	2012	K thru 5	763
Mountain Valley Elementary	2013	K thru 5	454
Piper Ranch Middle School	2018	6 thru 8	1,439
Danville Middle School	2018	6 thru 8	877
Davenport High School	2020	9 thru 12	528
Hill Country College Preparatory	2020	9 thru 12	46
JJAEP			1
Total			25,249

Source: Comal ISD

Budget and Personnel

The budget for the 2020-21 school year is $219,261,328. The District currently employs 3,600 professional and supportive staff, with an annual payroll budget exceeding $177,794,127. Approximately $8,014,807 is budgeted annually for transportation, with 244 buses traveling 1,840,672 total miles in 2019-20.

Average Daily Attendance and Percentage Increase

School Year	Membership	Average Daily Attendance	% ADA Increase
2003-04	11,860	11,272	6.38%
2004-05	12,457	11,778	4.48%
2005-06	13,329	12,655	7.40%
2006-07	14,125	13,405	5.90%
2007-08	15,100	14,285	6.60%
2008-09	16,010	15,141	5.99%
2009-10	16,485	15,647	3.23%
2010-11	17,190	16,262	3.90%
2011-12	17,657	16,849	3.60%
2012-13	18,643	17,611	4.52%
2013-14	19,313	18,502	5.06%
2014-15	20,277	19,235	3.96%
2015-16	20,922	20,100	4.50%
2016-17	21,954	21,021	4.58%
2017-18	22,754	21,734	3.39%
2018-19	23,641	22,648	4.20%
2019-20	24,769	24,002	5.98%
2020-21*	25,295	23,712	1.20%

Source: Comal ISD
** As of 9-1-20*

Scholastic Information

Every campus is fully accredited by the Texas Education Agency and the two high schools are accredited by the Southern Association of Colleges and Schools.

Results of the Texas Assessment of Academic Skills have shown increases in reading, writing, and mathematics. Standardized achievement test scores have shown increases in scores during the past six years. Students in the District rank well ahead of their counterparts in the State and Nation in most achievement areas.

Curricular offerings in the District comply with and extend beyond the requirements of Texas State law with a comprehensive curriculum for students in grades pre-kindergarten through twelve. The elementary program focuses on essential knowledge and skills in reading, language arts and mathematics, with strong program in the arts, sciences, and physical education and health. The secondary program is designed to provide academic foundations for college and/or entry level work skills for students in the vocational program. The District is recognized statewide for its special education program. Special programs are designed for all special populations (gifted and talented, deaf, advanced academic placement, etc.).

Community Education

Over 6,000 children and adults participate in after-school and evening programs annually. School campuses are utilized to provide educational opportunities for citizens of all ages. Courses are offered at moderate tuition fees to encourage participation. All courses are self-supportive.

GENERAL AND STATISTICAL INFORMATION*

General Information

The District, located primarily in Comal County, Texas (the "County"), a pioneer German settlement created in 1846 from Bexar, Gonzales and Travis Counties, Texas, is a scenic Southwest county named after the Comal River. The District also extends into part of Guadalupe County.

The City of New Braunfels, Texas (the "City"), the county seat of Comal County, is located in the southeast part of the County approximately twenty-five miles north of San Antonio on Interstate Highway 35 and forty miles south of Austin on Interstate Highway 35.

* *See "INTRODUCTION - COVID-19"*

Population

Census Report	City of New Braunfels	Comal County
2020 Est.	95,782	163,539
2010	57,740	108,472
2000	36,464	78,021
1990	30,402	58,905
1980	22,402	36,446

Labor Force Statistics - Comal County

	August	Annual Average			
	2020	2019	2018	2017	2016
Civilian Labor Force	74,413	73,333	70,132	66,826	63,539
Total Employed	70,375	71,149	67,878	64,580	61,229
Total Unemployed	4,038	2,184	2,254	2,246	2,310
% Unemployed	5.4%	3.0%	3.2%	3.4%	3.6%
% Unemployed (Texas)	6.8%	3.5%	3.7%	4.3%	4.6%
% Unemployed (United States)	8.4%	3.7%	3.9%	4.4%	4.9%

Source: Texas Workforce Commission - Economic Research and Analysis Department, and United States Department of Labor.

Major Employers

The County has been economically stable for many years because of the industries located there. A list of the major non-governmental employers, their products and number of employees as reported by the Greater New Braunfels Chamber of Commerce follows:

Name	Product	Approximate Number of Employees
Schlitterbahn	Waterpark and Resort	2,300*
Wal Mart Distribution Center	Distribution Center	1,215
Sysco	Food Products Supplier	780
Hunter Industries/Colorado Materials	Highway Contractor/Material Supplier	765
HD Supply Facilities Maintenance	Call Center	538
Rush Enterprises, Inc.	Heavy Duty Truck Dealer	521
Resolute Health	Hospital	487
CHRISTUS Santa Rosa Hospital - New Braunfels	Hospital	440
CBE	Call Center	350
IBEX Global	Call Center	328

* *The Schlitterbahn Water Park, located on 100 acres in the City, is a large seasonal employer. The operating season is Memorial Day through Labor Day, during which time approximately 1,800 people are employed.*

In addition to the foregoing, estimated County, City and School District current employment figures follow:

Comal County	792*
City of New Braunfels	646*
New Braunfels Utilities	243
New Braunfels ISD	1,004
Comal ISD	3,006

* *Includes part-time and seasonal employees.*

Employment and Wages by Industry - Comal County

	Number of Employees			
	First Quarter 2020	Fourth Quarter 2019	Fourth Quarter 2018	Fourth Quarter 2017
Natural Resources and Mining	818	712	713	609
Construction	6,732	6,095	5,392	5,662
Manufacturing	3,239	3,089	3,125	3,018
Trade, Transportation & Utilities	13,856	13,703	13,291	12,918
Information	542	643	635	593
Financial Activities	2,162	2,204	1,923	1,744
Professional and Business Services	6,883	7,007	7,170	6,518
Education and Health Services	7,851	7,483	7,253	6,880
Leisure and Hospitality	8,908	10,833	8,873	8,328
Other Services	1,814	1,690	2,008	1,717
Unclassified	30	43	41	70
Federal Government	236	224	224	210
State Government	209	200	200	171
Local Government	5,987	5,925	5,853	5,651
Total Employment	59,267	59,853	56,703	54,091
Total Wages	$706,846,365	$649,173,566	$648,719,561	$602,993,971

Source: Labor Market and Career Information Department, Texas Workforce Commission.

Educational Facilities

Other local public school facilities are provided through the New Braunfels Independent School District. Enrollment records follow:

	New Braunfels ISD	
School Year	Membership	Avg. Daily Attendance
2009-10	7,809	7,458
2010-11	7,918	7,680
2011-12	7,965	7,648
2012-13	8,093	7,769
2013-14	8,202	7,873
2014-15	8,393	8,057
2015-16	8,420	8,083
2016-17	8,583	8,068
2017-18	8,925	8,432
2018-19	9,237	8,634
2019-20 *	9,524	8,904

* *As of Fall 2019.*

The preceding enrollment figures do not include enrollment at the four private and parochial schools.

Higher educational facilities include Texas Lutheran University - Seguin, approximately 13 miles from New Braunfels; Texas State University - San Marcos, approximately 15 miles from New Braunfels; and eight colleges and/or universities located in San Antonio, approximately 35 miles from New Braunfels. Planned higher educational facilities include the future Howard-Payne University campus which will be part of the proposed Veramendi development project. Currently, Howard-Payne University offers courses at New Braunfels High School and online. In addition, Wayland Baptist University has moved into a 10,000 sq. ft. educational space adding more higher education opportunities in the surrounding community.

The Central Texas Technology Center. The CTTC is a District Workforce Specialty Campus. It is the area's first higher education facility dedicated to technology and it is a collaborative effort of the governing bodies and business development agencies of New Braunfels, Seguin and the Alamo Colleges. Alamo Colleges runs the programs and classes that provide college level education and training to residents of Comal, Guadalupe, Hays, Bexar and Wilson counties. In 2015, The U.S. Department of Commerce and Economic Development Administration awarded Alamo Colleges at $1.25 million dollar grant to help double the size of the CTTC. These funds joined $5 million already committed to the project and paved the way for the expansion project which was completed in 2016.

Health Care

The City has two hospitals, CHRISTUS Santa Rosa Hospital-New Braunfels (CSRH-NB) and Resolute Health. CSRH-NB is a full-service, 94-private bed facility that continues to expand to meet the needs of New Braunfels' strong population growth. CSRH-NB employs more than 475 full and part time Associates and provides privileges to more than 150 physician staff members and nearly 100 volunteers. Innovative equipment and procedures are utilized, including an Outpatient Imaging Center, orthopedic and surgical services, rehabilitation, a renovated birthing center, including 24/7 neonatal coverage, emergency care, wound care/hyperbaric center, comprehensive heart care, from diagnostics to open-heart surgery, and a freestanding Emergency Center at Creekside Town Center. Resolute Health opened in June 2014 and employs about 600 associates. Resolute Health invested $250 million into the 365,000 square-foot facility which has 125 beds in all-private rooms and offers a broad range of specialty services, including cardiovascular, orthopedics, oncology, imaging, wound care, rehabilitation and obstetrics. It is the only Level III neonatal intensive care unit in the area. The new hospital serves as the cornerstone of Resolute Health, a network of care in New Braunfels, which is located roughly 30 miles northeast of San Antonio. New Braunfels Regional Rehabilitation Hospital is a 40-bed hospital that specializes in severe head and neck/stroke patients. More than 160 employees work at the $28 million dollar, 40-bed facility. Bexar County, University of Texas and U. S. Veterans Administration medical facilities are located in nearby northwest San Antonio.

Community Services

The New Braunfels and Canyon Lake area contains approximately 26 motels/hotels, 27 resorts and condominiums, 22 campgrounds and RV parks, and 28 bed and breakfast/vacation home rentals. In addition, there are numerous other facilities available in San Antonio and adjoining towns.

The City has several museums, a library, two radio stations, and a newspaper which is published six days a week. In addition, one weekly newspaper is published in Comal County. Both the San Antonio and Austin daily newspapers are available. There are numerous radio stations, three commercial television stations, cable and satellite television, and one educational television station in San Antonio that serve the New Braunfels area.

Over thirty denominations are represented in more than seventy churches in the City. Those not represented generally are available in nearby San Antonio.

Transportation

The City is served by Interstate Highway 35 (U.S. 81) and State Highway 46. Loop 337 circles the City and numerous Farm and Ranch Roads traverse the County. Railroads include the Union Pacific and Missouri Kansas and Texas Lines. The City's airport facility encompasses 1,000 acres and has four runways, four taxiways, and a parking ramp. The airport runways are of all asphalt construction with threshold lights and full runway lights. Jet fuel, aviation gas, and car rentals are available at the airport. The airport, located some four miles from the City, is reported to have an average of 75 flights per day. The New Braunfels Airport is also used for corporate flights. Greyhound/Trailways Bus Lines and several motor freight lines also serve the City.

Tourism and Recreation

Located in the heart of the City are Comal Springs and Landa Park, a 300-acre park, which includes an 18-hole golf course, tennis courts, large picnic and playground areas, an Olympic-size swimming pool, and the largest spring-fed swimming pool in Texas. Schlitterbahn Waterpark Resort in New Braunfels is recognized annually as one of the best waterparks in the country. Numerous additional golf courses are available in the region.

Natural Bridge Caverns, the state's largest caverns, and Natural Bridge Wildlife Ranch are major tourist attractions located in the southern part of Comal County. Scenic drives and historic sites also attract many tourists to the area.

Canoeing, tubing, rafting, kayaking and other white water sports on the Guadalupe River are very popular.

Canyon Lake, located twenty miles from the City, is a popular water-resort area for sailing, boating, fishing, water skiing and scuba diving. Several parks have been established around the Lake.

Annual celebrations include the Comal County Fair, one of the oldest and best attended County fairs in the State, and the "Wurstfest." The annual "Wurstfest" is a ten-day event and always starts on the Friday before the first Monday in November. The 58th annual "Wurstfest" was held November 2 through November 11. Average annual attendance exceeds 125,000 with income from admissions and concessions sales well in excess of $3,000,000.

The City constructed a Civic Center in 1971 which contributes materially to tourist income. In addition, the City built a new civic center and renovated the existing space in July 2008.

Utilities

The Guadalupe River provides NBU and the City of New Braunfels with a source of good quality and quantity of water. Well water from the Edwards Aquifer and the Trinity Aquifer is also available in most of the unincorporated areas of the County. The Guadalupe River, Comal River and Canyon Lake help to assure future water supply. Sale of water from Canyon Lake is in the control of the Guadalupe-Blanco River Authority. Water districts serve the eastern part of the County.

Electricity is available throughout the City and is provided by NBU which also serves approximately 5,300 customers in the surrounding rural area. GVEC and PEC also provide electric services to some areas of the City.

Natural Gas is available to the residents of the City from Enterprise Texas Pipeline, L.P., and distributed by Centerpoint Energy. In other areas where natural gas is not available, butane and propane gas service is available by truck delivery.

The City's telephone service is provided by AT&T, Inc. and Time Warner Cable, with other County areas being served by the Guadalupe Valley Telephone Cooperative (GVTC).

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Comal 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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COMAL INDEPENDENT SCHOOL DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2019

OFFICIALS ISSUING REPORT

David Andersen, Chief Financial Officer

Kathy Hanlon, Director of Business Services

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Comal Independent School District	Comal	046902
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 29th day of October, 2019.

Michelle Ross
Signature of Board Secretary

Jason York
Signature of Board President

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

October 29, 2019

To the Board of Trustees and the Citizens of Comal Independent School District:

The Comprehensive Annual Financial Report ("CAFR") of the Comal Independent School District (the "District") for the fiscal year ended June 30, 2019 is hereby submitted. This report has been prepared to provide the Board of Trustees (the "Board"), representatives of financial institutions and rating agencies, the citizenry of the District, and other interested parties information concerning the financial condition of the District.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the District. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The CAFR is presented in four sections: (1) introductory, (2) financial, (3) statistical, and (4) federal awards. The introductory section includes the transmittal letter, a listing of the District's principal officials and advisors, and an organization chart of the District. The financial section includes Management's Discussion and Analysis ("MD&A"), basic financial statements, combining and individual fund statements and schedules, and required Texas Education Agency schedules, as well as the independent auditors' report on the financial statements. The MD&A is a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors. The statistical section consists of unaudited tables which reflect both financial and demographic information. This data is for the purpose of presenting social and economic information, financial trends and fiscal capacity of the District, and is generally presented on a multi-year basis. The federal awards section includes the single audit reports prepared in conformity with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

This report includes all funds of the District. The District is a public school system offering early childhood education, pre-kindergarten, and full kindergarten through grade 12 educational opportunities for all school age residents within its geographic boundaries. All activities over which the District's Board exercises authority and/or oversight responsibilities are included.

A component unit is a legally separate organization that a primary government must include as part of its financial reporting entity for fair presentation in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The District is not a component unit nor does it have component units.

GOVERNING BODY

The District is governed by a seven member Board, each elected to a single-member district to serve three year terms of office. Elections are held in May. Board officers are elected by the members of the Board.

Regular meetings are scheduled the fourth Thursday of the month and are held in the Support Services Board Room. Special called meetings, committee meetings, and workshop sessions are scheduled as needed and announced to the public in compliance with public notice requirements.

The Board has final control over local school matters limited only by the state legislature, the court system, and by the will of its citizens as expressed in school Board elections and bond referendums. Board decisions are based on a majority vote of those present.

In general, the Board is responsible for adopting policy, employing and evaluating the Superintendent, and overseeing the operations of the District and its schools. The Board is also responsible for setting the tax rate, adopting the annual budget along with periodic amendments, setting salary schedules, approving pay increases, and serving as a board of appeals in personnel and student matters.

GENERAL INFORMATION

The District spans 589 square miles of central Texas, including parts of five central Texas counties: Comal, Bexar, Hays, Kendall, and Guadalupe. Within the District are the communities of Canyon Lake, Sattler, Startzville, Hancock, Fischer, Spring Branch, Smithson Valley, Bulverde, Garden Ridge, and part of the cities of San Antonio and New Braunfels. Major highways crossing the District include Interstate 35, U.S. Highway 281, and Texas Highway 46. The District was established in the early 1950's by farmers and ranchers surrounding the City of New Braunfels. The District can generally be characterized as a mix of rural and suburban areas in the Austin to San Antonio Interstate Highway 35 corridor. The District is in relative proximity to the five largest cities in the state of Texas - Austin, Dallas, Ft. Worth, Houston, and San Antonio.

The District has twenty-eight instructional campuses - four high schools, seven middle schools, eighteen elementary schools and one alternative learning center. The latest new elementary campus was opened in August of 2013. The District opened two new middle schools in 2018 and two new high schools are currently under construction to open in 2020 and 2021.

The District finished the year ended June 30, 2019 with a total student population of 23,836. The District's student enrollment has increased by over 18% over the last five years and annual growth of over 4% is expected in the future. The District continues to become more ethnically diverse. Recent statistics indicate a student population that is approximately forty percent Hispanic, two percent African-American, and fifty-one percent Caucasian.

ECONOMIC CONDITION AND OUTLOOK

The fast-growth district is located approximately 20 miles north of San Antonio. It benefits from its proximity to San Antonio and Austin, as roughly two-thirds of its working population commutes to these labor markets. The State unemployment rate of 3.5 percent, the San Antonio unemployment rate of 3.1 percent and the New Braunfels unemployment rate of 3.0 percent all fall below the state rate.

The local economy of New Braunfels is heavily focused on leisure and entertainment. There are two major tourist destinations adjacent to downtown: Schlitterbahn, the largest water park in the U.S., and Gruene, a retail/entertainment center. Between cultural tourism and tourist visits to the Comal River, it is estimated New Braunfels receives approximately 3 million visitors a year.

The District is the eighth-fastest growing district by percent in the fast-growth Austin region and the third-fastest growing district by percent in the San Antonio region, over a ten-year period. In terms of annual housing starts, the District is second only to Northside ISD, a district with more than 100,000 students. In the first quarter of 2019, the District closed 460 new homes. 2019 new home starts as of the first quarter of 2019 reached 1,821 units. There are currently more than 2,963 vacant developed lots ready for builders within the District.

New housing is in a position for continued growth throughout the remainder of 2019, 2020 and the foreseeable future. Home prices are climbing due to high demand and low inventories of existing homes. The highest concentration of new housing is taking place along the Highway 281 and Interstate 35 corridors, with several developments along Highway 281 with more than 1,000 future homes. Property value in the District increased 12.8 percent in 2014-2015 over 2013-14, 7.2 percent in 2015-16 over 2014-15, 7.9 percent in 2016-17 over 2015-16, 11.6 percent in 2017-18 over 2016-17, 7.6 percent in 2018-19 over 2017-18, and 13.0 percent in 2019-20 over 2018-19.

FINANCIAL INFORMATION

The District takes pride in its commitment to fiscal management through integrity, prudent stewardship, planning, accountability, full disclosure and communication. This philosophy has generated a strong fund balance over the years and allowed the District to sustain high quality educational services, even in the most trying financial times.

Internal Control

Management is responsible for designing, implementing and maintaining adequate, efficient, and effective systems of internal control. These systems of control provide reasonable, but not absolute, assurance that:

- District assets and critical records are safeguarded from loss, theft, or misuse;
- Authorized transactions are promptly and accurately recorded;
- District resources are efficiently and economically employed; and,
- Financial reports are prepared in accordance with GAAP.

The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of "reasonable assurance" recognizes that (1) the cost of a control should not exceed the benefits likely to be derived from its implementation; and (2) the valuation of cost and benefits requires estimates and judgments by management. Management believes the internal controls adequately meet the above objectives.

The District has an internal review process and dedicated staff to assure these objectives are met, and the Board has an Audit Committee that receives direct reports of any suspected fraudulent activity from an independent service.

Budgetary Control

State law requires that every local education agency in Texas prepare and file an annual budget of anticipated revenues and expenditures with the Texas Education Agency. The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual budget approved by the Board. The budget itself is prepared utilizing a detailed line item approach for Governmental Fund types and is prepared in accordance with the budgeting requirements as outlined in the Financial Accountability System Resource Guide for Texas school districts.

The District also maintains an encumbrance accounting system as a budgetary control. Outstanding encumbrances at the end of the fiscal year are rolled forward into the subsequent fiscal period and budget amendments are implemented accordingly.

It is the intent of the District that the budgetary process results in the most effective mix of the educational and financial resources available while attaining the goals and objectives of the District. The ultimate decision of the level of funding and the programs to be funded rests with the Board. After considering all factors, the Board sets an ad valorem tax rate that generates sufficient revenues to support the expenditure budget of the District.

The budget may be amended during the year to address unanticipated or changing needs of the District. A change to functional expenditure categories or other sources and uses accounts requires Board approval.

Cash Management

In accordance with the District's investment strategy, it is the District's practice to maintain a cash management program that invests financial resources in a manner that provides first for the safety of principal and secondarily to achieve favorable rates of return. The program is sustained by providing a sufficient level of liquidity to support the daily cash flow demands of District operations without subjecting the District to material, unfavorable market conditions and interest rate risk.

Purchases of U.S. Treasury and Agency securities are competitively quoted in accordance with statutory guidelines and District policy. The District also invests in fully-collateralized repurchase agreements, certificates of deposit, and money market accounts and participates in local government investment pools, including TexPool, LOGIC and Lone Star. Government pools provide for liquidity, competitive market returns, and additional diversification of the investment portfolio.

Risk Management

The objectives of the risk management program are to safeguard the assets of the District, minimize the financial effect of potential losses, and to provide a reasonable level of employee benefits at an affordable funding level.

The District's property and casualty insurance is provided by national commercial carriers on a fully insured basis. In addition, risks associated with worker's compensation are self-insured through an agreement with Claims Administrative Services.

The District provides a self-funded health care plan that is purchased through a commercial carrier. Other benefits offered to employees on a voluntary basis include dental, vision, and long-term disability insurance as well as dependent and supplemental life policies.

INDEPENDENT AUDIT

The Texas Education Code requires an annual audit of the District's financial statements by independent certified public accountants selected by the Board. In addition to meeting the requirements set forth in state statutes, the audit is designed to also meet the requirements of the Uniform Guidance. The independent auditors' report on the basic financial statements, the combining and individual fund statements and schedules, and the required Texas Education Agency schedules are included in the financial section of this report.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awards a Certificate of Achievement for Excellence in Financial Reporting to a district for its Comprehensive Annual Financial Report (CAFR). In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. The report must also satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement was awarded to the district for the 2017-18 CAFR and is valid for a period of one year only. We believe the current comprehensive annual financial report will meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate.

The Financial Integrity Rating System of Texas (FIRST), a financial accountability system for Texas school districts, was developed by the Texas Education Agency in response to Senate Bill 875 of the 76th Texas Legislature in 1999. The primary goal of FIRST is to achieve quality performance in the management of school districts' financial resources, a goal made more significant due to the complexity of accounting associated with the Texas school finance system. The District was awarded a perfect score and the "Superior" rating under Texas' schools FIRST financial accountability rating system for the sixteenth year. The "Superior" rating is the highest possible financial rating, demonstrating the quality of the District's sound fiscal management and reporting systems.

ACKNOWLEDGMENTS

The preparation of this report on a timely basis could not have been accomplished without the dedicated services of the Business Services staff. We would like to express our appreciation for their contributions to its presentation. Acknowledgment is also given to ABIP LLP for their assistance in the production of this report. Finally, we would like to thank the Board for their continued support of the District's objective of excellence in all aspects of financial management.

COMAL ISD
Comal Independent School District

Respectfully submitted,

Andrew B. Kim, Superintendent of Schools

David Andersen, Chief Financial Officer

Kathy Hanlon, Director of Business Services

COMAL INDEPENDENT SCHOOL DISTRICT

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year ended June 30, 2019

PRINCIPAL OFFICIALS AND ADVISORS

BOARD OF TRUSTEES

ADMINISTRATIVE STAFF

Andrew Kim .... Superintendent

Kerry Gain .... Assistant Superintendent for Curriculum and Academic Services

David Andersen .... Chief Financial Officer

Krista Moffatt .... Executive Director for Elementary Education

Corbee Wunderlich .... Executive Director for Secondary Education

Marie Kuehler .... Executive Director of Human Resources

Mandy Epley .... Chief of Staff

Michael McCullar .... Executive Director, Construction and Facilities Management

Kathy Hanlon .... Director of Business Services

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

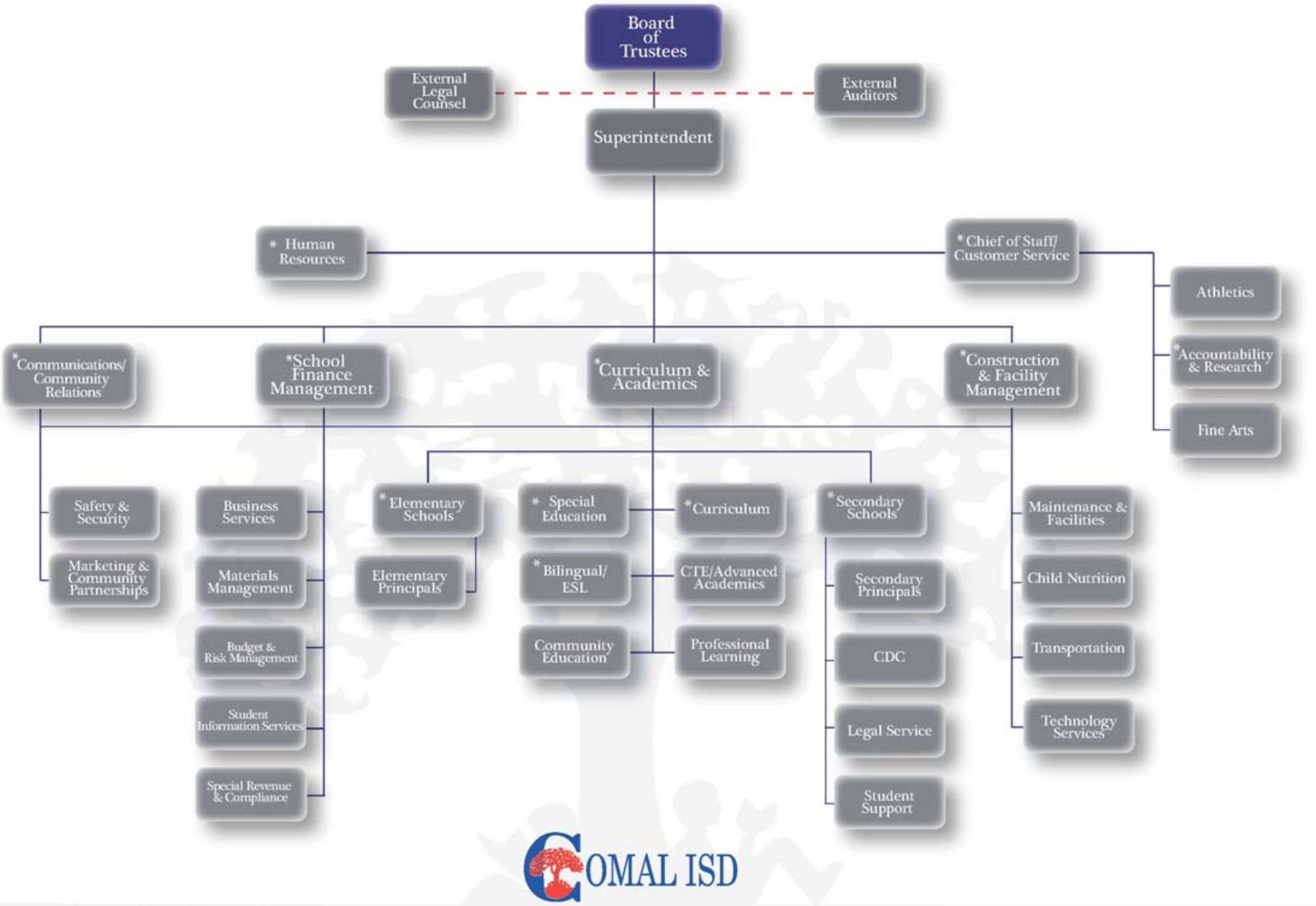
ABIP, PC .... Independent Auditors
San Antonio, Texas

SAMCO Capital Markets .... Financial Advisors
San Antonio, Texas

Escamilla Poneck LLP .... Legal Counsel
San Antonio, Texas

Norton Rose Fulbright US LLP .... Bond Counsel
San Antonio, Texas

CommunicationFlow



* Denotes Superintendent Team

Communications Department - Revised 6/19

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Comal Independent School District

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2018

Christopher P. Morrill

Executive Director/CEO

FINANCIAL SECTION

abip

CPAs | ADVISORS

INDEPENDENT AUDITORS' REPORT

To: The Board of Trustees
Comal Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Comal Independent School District (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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatements 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.

7330 San Pedro Ave | Suite 901 | San Antonio, TX 78216 | (210) 341-2581 | Fax: (210) 341-2588 | abipcpa.com

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Comal 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the District's proportionate share of the net pension and OPEB liability-Teacher Retirement System of Texas; and the schedules of District contributions-Teacher Retirement System of Texas on pages 5 through 13 and pages 63 through 66, 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 statements and schedules, required Texas Education Agency schedule, and statistical section, 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* 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 statements and schedules, required Texas Education Agency schedule, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, required Texas Education Agency schedule 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 and statistical sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 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.

ABIP, PC

San Antonio, Texas
October 29, 2019

COMAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2019

This section of the annual financial report, we, the managers of Comal Independent School District (the "District"), discuss and analyze the District's financial performance for the year ended June 30, 2019. Please read it in conjunction with the independent auditors' report on page 1, and the District's basic financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent period by $33,626,647. Of this amount, $63,657,051 is a deficit unrestricted net position. The deficit unrestricted net position is the result of current year adjustments related to pension and other postemployment benefits reporting requirements.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $277,817,417. Approximately 24 percent of this total amount, $67,057,090, is available for spending at the District's discretion (unassigned fund balance). Fund balance of $188,018,649, about 68 percent, is restricted for current and future capital projects.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $67,057,090, or 34 percent of the total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, *and required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.

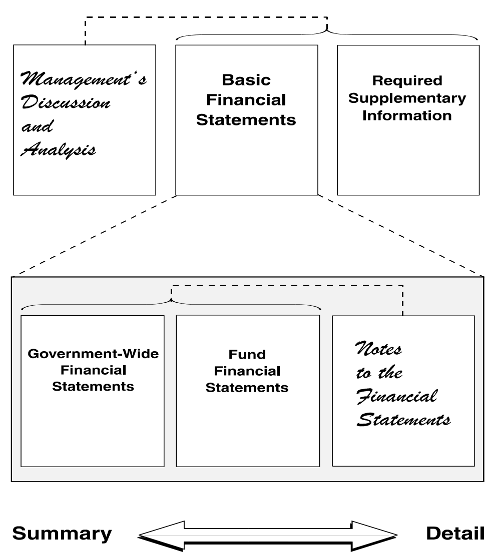
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.

- *Proprietary fund* statements offer *short* and *long-term* financial information about the activities the government operates *like businesses,* such as food service.

- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



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

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

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

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

Government-wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources - is one way to measure the District's financial health or *position*.

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

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental Activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities. The government-wide financial statements also include the *Business-type Activities*, which accounts for catering operations for meetings held by the District.

Fund Financial Statements

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

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

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent pages that explain the relationship (or differences) between them.

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Both current period and prior year data are presented with discussion of significant changes in the accounts. Our analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's government-wide activities (Governmental and Business-type Activities).

This period-over-period comparison provides an indication of the District's financial well-being. Increases and decreases in net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2019, the District's liabilities and deferred inflows of resources exceeded combined assets and deferred outflows of resources by $33,626,647, which is an increase compared to the prior year combined net position of $30,686,337.

Table 1

The District's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	$ 323,700,726	$ 396,024,324	$ 70,421	$ 73,505	$ 323,771,147	$ 396,097,829
Capital assets	623,511,323	571,454,186	-	-	623,511,323	571,454,186
Total assets	947,212,049	967,478,510	70,421	73,505	947,282,470	967,552,015
Deferred outflows of resources	66,657,821	42,823,243	-	-	66,657,821	42,823,243
Liabilities:						
Current liabilities	81,215,282	76,649,990	8,660	7,798	81,223,942	76,657,788
Non-current liabilities	940,769,629	935,518,981	-	-	940,769,629	935,518,981
Total liabilities	1,021,984,911	1,012,168,971	8,660	7,798	1,021,993,571	1,012,176,769
Deferred inflows of resources	25,573,367	28,884,826	-	-	25,573,367	28,884,826
Net position:						
Net investment in capital assets	11,982,403	15,720,734	-	-	11,982,403	15,720,734
Restricted	18,048,001	18,838,628	-	-	18,048,001	18,838,628
Unrestricted	(63,718,812)	(65,311,406)	61,761	65,707	(63,657,051)	(65,245,699)
Total net position	$ (33,688,408)	$ (30,752,044)	$ 61,761	$ 65,707	$ (33,626,647)	(30,686,337)

Investment in capital assets (e.g., land, construction in progress, buildings, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is $11,982,403. 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, generally property taxes, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position of $18,048,001 represents resources that are subject to external restrictions on how they may be used. The remaining deficit unrestricted net position of $63,718,812 is a result of recent adoptions of GASB 68 and GASB 75 which combined accounts for $106,422,086 in liabilities and net deferred outflows/inflows as of June 30, 2019.

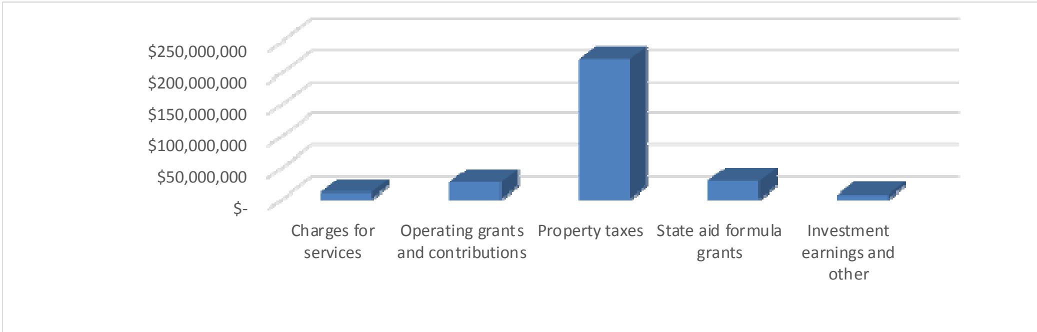
Of the total combined net position balance of $(33,688,408) represents net position of governmental activities and $61,761 represents net position of business-type activities related to the non-major Enterprise Fund which accounts for catering operations for meetings held by the District.

Table 2
The District's Change in Net Position
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Program revenues:						
Charges for services	$ 10,179,778	$ 8,473,306	$ 173,398	$ 122,219	$ 10,353,176	$ 8,595,525
Operating grants and contributions	26,582,328	(12,364,844)	-	-	26,582,328	(12,364,844)
General revenues:						
Property taxes	221,391,346	203,487,719	-	-	221,391,346	203,487,719
State aid formula grants	28,667,404	18,939,033	-	-	28,667,404	18,939,033
Investment earnings and other	6,539,840	6,389,755	-	-	6,539,840	6,389,755
Total revenues	293,360,696	224,924,969	173,398	122,219	293,534,094	225,047,188
Expenses:						
Instruction and related services	146,461,998	87,224,861	-	-	146,461,998	87,224,861
Instructional and school leadership	16,896,125	10,598,463	-	-	16,896,125	10,598,463
Student support services	11,558,151	7,285,188	-	-	11,558,151	7,285,188
Student transportation services	8,876,670	6,624,587	-	-	8,876,670	6,624,587
Food services	11,802,587	8,897,300	177,344	152,148	11,979,931	9,049,448
Co-curricular and extracurricular	9,777,212	7,295,904	-	-	9,777,212	7,295,904
General administration	7,761,315	4,913,525	-	-	7,761,315	4,913,525
Facilities maintenance and operations	21,636,718	16,990,928	-	-	21,636,718	16,990,928
Nonstudent support and ancillary services	11,843,814	9,918,791	-	-	11,843,814	9,918,791
Interest and other debt service	32,598,411	31,065,278	-	-	32,598,411	31,065,278
Facilities acquisition and construction	8,832,539	4,303,586	-	-	8,832,539	4,303,586
Other	8,251,520	3,943,272	-	-	8,251,520	3,943,272
Total expenses	296,297,060	199,061,683	177,344	152,148	296,474,404	199,213,831
Change in net position	(2,936,364)	25,863,286	(3,946)	(29,929)	(2,940,310)	25,833,357
Beginning net position	(30,752,044)	48,227,645	65,707	95,636	(30,686,337)	48,323,281
Restatement of net position	-	(104,842,975)	-	-	-	(104,842,975)
Net position, beginning as restated	(30,752,044)	(56,615,330)	65,707	65,707	(30,686,337)	(56,519,694)
Ending net position	$ (33,688,408)	$ (30,752,044)	$ 61,761	$ 65,707	$ (33,626,647)	$ (30,686,337)

The District’s program and general revenues increased by $68,486,906 (30%) due primarily to an increase in property tax collections and an increase in state foundation program revenue.

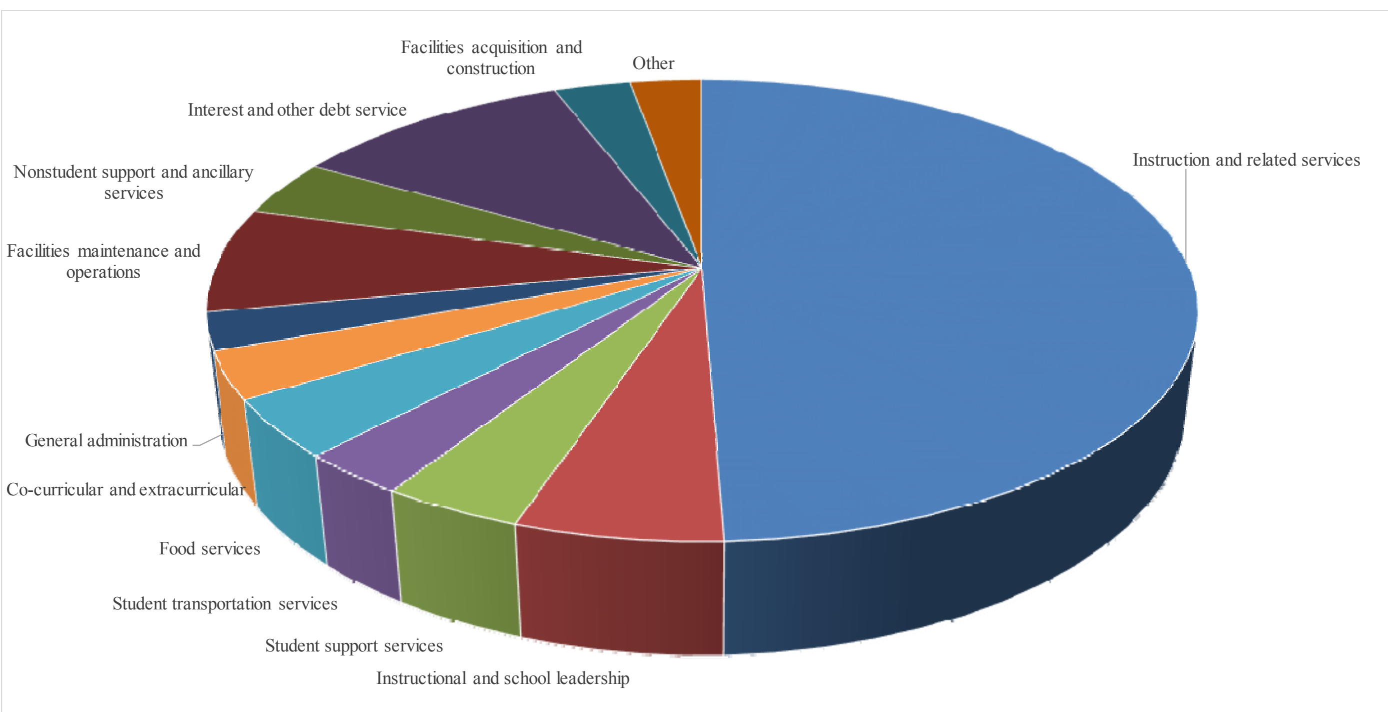
Sources of Revenue
For the year ended June 30, 2019



House Bill 1, which passed during the final special legislative session in 2005, changed the way school districts receive revenue from both state and local sources. Property tax rates were “brought down” for two years and replaced with a combination of business franchise taxes and an increase in the tobacco tax. Districts that had reached the $1.50 M&O tax cap, were compressed to $1.33 in 2006 and $1.00 in 2007. Local school boards retained the option of adding up to four cents to the local compressed rate without approval, and the District’s Board has exercised that option.

Under Chapter 41 of the Texas Education Code, the District’s voters approved for the District to equalize its excess wealth by either purchasing *attendance credits* from the State or purchasing *weighted average daily attendance* from other school districts. The State has mandated that a district’s property value per WADA is limited to $319,500. When values exceed this amount a district must share its wealth with the State to equalize access to revenue. However, the final determination of whether a school district will be required to make recapture payments is based on the district’s tax effort and the extent to which the districts wealth per WADA exceeds the first equalized wealth level of $514,000. This recapture payment resulted in an outflow of local tax dollars to the other school districts and the State in the amount of $6,191,968 during FY 2019. Debt service taxes are excluded from recapture.

Percent of District Expenses by Functional Categories



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 fund

The financial performance of the District as a whole is reflected in its governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources.* Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year. As the District completed this year, its governmental funds reported a combined ending fund balance of $277,817,417, of which $67,057,090, or 24%, is considered unassigned and is available for spending at the District's discretion. The remainder of the fund balance is nonspendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been designated for other obligations of the District.

The General Fund is the chief operating fund of the District. Compared to last year, General Fund balance has increased by $4,551,529. Much of this increase is a result of increasing property tax revenues compared to last year, which increased as a result of rising property values in the District. Since last year, property tax rates for the General Fund have not changed, remaining steady at $1.04 per $100 valuation; however, appraised District property values has increased by 8.6%, or $1.30 billion, compared to last year. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 34% of the total General Fund expenditures. The Texas Education Agency (TEA) recommends that districts keep a fund balance that is equal to approximately 25% (or three months) of annual General Fund operating expenditures; the District currently has fund balance in excess of the TEA's suggested level.

The Debt Service Fund has a total fund balance of $15,341,893, all of which is restricted for the payment of debt service. The net decrease in fund balance during the year in the Debt Service Fund was $161,449. This decrease was primarily due to a decrease in other sources of financing driven by different bond refundings in each year. This was an intentional draw down of fund balance to pay off some debt early combined with the refunding.

The Series 2017 Bonds Fund is a major capital projects fund and has a total fund balance of $183,098,632, all of which is restricted for authorized construction. This fund is for the proceeds from Series 2017 bonds.

Other governmental funds, which consist of the remaining Capital Projects and Special Revenue Funds, have total fund balance, of $11,898,033, a $14,228,213 decrease since last year. Overall, fund balance related to the Special Revenue Funds has decreased by $132,852. Fund balance for the nonmajor Capital Projects Funds has decreased by $14,095,361 as a result of District construction which is a response to continued student population growth in the District.

BUDGETARY HIGHLIGHTS

Consistent with its budget development procedures, the Board appropriates funds for expected enrollment estimates. Over the past five years, the District's enrollment has increased over 4.25% from an average daily attendance enrollment of 18,502 in 2014 to 23,836 by the end of the 2018-2019 school year. Increases to enrollment provide additional state aid, and amendments to the General Fund budget are made to provide additional resources when needed. Over the course of the year, the District revised its budget several times. All variances between the General Fund original budget and final amended budget are due to amending the budget to more closely estimate actual revenues and expenditures.

The District adopts budgets for the General Fund, the Debt Service Fund, and the National School Breakfast and Lunch Program. Overall, the General Fund finished the year ahead of budget by $9,851,502. Actual General Fund expenditures were $9,700,168 below final budget amounts. The most significant expenditure variances resulted in the areas of facilities acquisition, construction and instruction.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The District's investment in capital assets for its governmental activities as of June 30, 2019, amounts to $623,511,323 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and equipment and vehicles (including furniture and fixtures). See note 6 for more detailed analysis of FY 2019 capital asset activity.

Table 3
District's Capital Assets

	2019	2018
Land	$ 51,425,384	$ 51,340,554
Construction in progress	79,867,175	103,373,721
Building and improvements	481,441,616	406,042,738
Equipment and vehicles	10,777,148	10,697,173
Total capital assets (net of accumulated depreciation)	$ 623,511,323	$ 571,454,186

Long-term debt

As of June 30, 2019, the District had total outstanding long-term debt of $850,389,730, a decrease of $25,288,922 from last year. Of total long-term debt outstanding as of June 30, 2019, $747,720,503 or 88% is made up of general obligation bonds issued by the District. Payments on bond principal for 2018-2019 totaled $18,154,603 and $5,435,000 of previously issued bonds which were refunded in the current year. See note 8 for more detailed analysis of FY 2019 long-term debt activity.

The "AAA" long-term rating on the District's bonds reflects the Texas Permanent School Fund guarantee. The District's underlying credit rating is "Aa2" by Moody's and "AA" by Fitch Rating Services.

State statutes have limits on the amount of general obligation debt a governmental entity may issue. A school district may not exceed $0.50/$100. This would leave up to an additional $0.15 cents available on the tax rate. Based on these limitations, the District has the ability to fund future bond issues.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District spans over 589 square miles of central Texas and extends parts of Bexar, Comal, Guadalupe, Hays and Kendall counties. This District is located within the communities of Canyon Lake, Sattler, Startzville, Hancock, Fisher, Spring Branch, Smithson Valley, Bulverde, Garden Ridge and part of the cities of San Antonio, Texas and New Braunfels, Texas. The District is a diversified agricultural and manufacturing area and is located about 20 miles north of downtown San Antonio, Texas and 45 miles south of Austin, Texas.

The District's elected officials considered many factors when setting the current fiscal year budget and tax rates. Between now and 2023, student enrollment is projected to increase to 30,000.

The Board has approved an original budget for the General Fund for the fiscal year ended June 30, 2020 estimating revenues of $204,402,029 and expenditures of $204,402,029, which results in an increase to the General Fund balance. The budget was based on a number of factors, including the following:

- Property value growth in the District is projected to be a 13.0% increase over 2018. The average home taxable value has increased from $217,040 for 2018-19 to $235,171 for 2019-20. The District M&O tax rate was reduced by 7 cents from $1.04 in 2018-19 to $0.97 in 2019-20. The I&S rate remains unchanged at $0.35.

- Student enrollment continues to increase in the District, with student population expected to increase by 979, or 4.1% in 2019-20 compared to 2018-19. Based on increased student enrollment, the District has projected the need to add 105 positions during the 2019-20 school year.

- Payroll accounts for 82% of the District's budget for 2019-20, and the District has worked hard to ensure overall compensation is competitive with surrounding districts in an effort to attract and retain quality staff. As a result, the Board approved a percentage increase in payroll of 4% for all staff and an additional $250 for staff on the teacher salary scale with 5 or more years of experience.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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 Chief Financial Officer, Comal Independent School District, 1404 IH-35 North, New Braunfels, Texas 78130.

BASIC FINANCIAL STATEMENTS

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 108,389,036	$ 68,039	$ 108,457,075
Temporary investments	200,344,618	-	200,344,618
Receivables:			
Property taxes - delinquent	7,561,867	-	7,561,867
Allowance for uncollectible taxes	(1,188,726)	-	(1,188,726)
Due from other governments	5,692,764	-	5,692,764
Due from fiduciary funds	2,075,542	-	2,075,542
Other receivables	403,856	2,382	406,238
Inventory	297,333	-	297,333
Prepaid items	124,436	-	124,436
Capital assets (net of depreciation):		-	-
Land	51,425,384	-	51,425,384
Construction in progress	79,867,175	-	79,867,175
Buildings and improvements	481,441,616	-	481,441,616
Equipment and vehicles	10,777,148	-	10,777,148
Total assets	947,212,049	70,421	947,282,470
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on bond refundings	27,496,468	-	27,496,468
Deferred outflows of resources - pension	28,217,933	-	28,217,933
Deferred outflows of resources - OPEB	10,943,420	-	10,943,420
Total deferred outflows of resources	66,657,821	-	66,657,821
LIABILITIES			
Accounts payable	17,672,005	8,660	17,680,665
Payroll deductions and withholdings payable	34,941	-	34,941
Accrued wages payable	17,367,873	-	17,367,873
Accrued expenses	627,705	-	627,705
Unearned revenue	749,359	-	749,359
Bond interest payable	13,340,723	-	13,340,723
Bonds payable, due in one year	30,825,162	-	30,825,162
Compensated absences	597,514	-	597,514
Noncurrent liabilities:			
Bonds payable, due in more than one year	796,218,875	-	796,218,875
Accretion payable	23,345,693	-	23,345,693
Compensated absences	1,194,989	-	1,194,989
Net pension liability	47,342,281	-	47,342,281
OPEB liability	72,667,791	-	72,667,791
Total liabilities	1,021,984,911	8,660	1,021,993,571
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources - pension	2,594,061	-	2,594,061
Deferred inflows of resources - OPEB	22,979,306	-	22,979,306
Total deferred inflows of resources	25,573,367	-	25,573,367
NET POSITION			
Net investment in capital assets	11,982,403	-	11,982,403
Restricted for:			
Debt service	15,341,893	-	15,341,893
Food service	2,706,108	-	2,706,108
Unrestricted	(63,718,812)	61,761	(63,657,051)
Total net position	$ (33,688,408)	$ 61,761	$ (33,626,647)

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction	$ 140,986,593	$ 4,149,535	$ 11,330,610	$ (125,506,448)	$ -	$ (125,506,448)
Instructional resources and media services	2,962,213	-	81,660	(2,880,553)	-	(2,880,553)
Curriculum and staff development	2,513,192	-	568,731	(1,944,461)	-	(1,944,461)
Instructional leadership	5,240,420	-	311,059	(4,929,361)	-	(4,929,361)
School leadership	11,655,705	-	391,894	(11,263,811)	-	(11,263,811)
Guidance, counseling, and evaluation services	7,893,379	-	669,712	(7,223,667)	-	(7,223,667)
Social work services	1,106,289	-	51,702	(1,054,587)	-	(1,054,587)
Health services	2,558,483	-	82,439	(2,476,044)	-	(2,476,044)
Student transportation	8,876,670	-	180,777	(8,695,893)	-	(8,695,893)
Food services	11,802,587	5,396,129	5,292,764	(1,113,694)	-	(1,113,694)
Extracurricular activities	9,777,212	469,347	3,073,837	(6,234,028)	-	(6,234,028)
General administration	7,761,315	164,767	199,338	(7,397,210)	-	(7,397,210)
Facilities maintenance and operations	21,636,718	-	316,805	(21,319,913)	-	(21,319,913)
Security and monitoring services	2,529,096	-	99,379	(2,429,717)	-	(2,429,717)
Data processing services	5,300,174	-	40,960	(5,259,214)	-	(5,259,214)
Community services	4,014,544	-	3,879,828	(134,716)	-	(134,716)
Interest on long-term debt	32,598,411	-	-	(32,598,411)	-	(32,598,411)
Other debt service	64,506	-	-	(64,506)	-	(64,506)
Facilities acquisition and construction	8,832,539	-	10,833	(8,821,706)	-	(8,821,706)
Other intergovernmental charges	8,187,014	-	-	(8,187,014)	-	(8,187,014)
Total governmental activities	296,297,060	10,179,778	26,582,328	(259,534,954)	-	(259,534,954)
Business-type activities:						
Food service - catering	177,344	173,398	-	-	(3,946)	(3,946)
Total business-type activities	177,344	173,398	-	-	(3,946)	(3,946)
Total primary government	$ 296,474,404	$ 10,353,176	$ 26,582,328	(259,534,954)	(3,946)	(259,538,900)
General revenues:						
Property taxes, levied for general purposes				166,032,759	-	166,032,759
Property taxes, levied for debt service				55,358,587	-	55,358,587
State aid-formula grants				28,667,404	-	28,667,404
Investment earnings				5,857,546	-	5,857,546
Miscellaneous revenue				682,294	-	682,294
Total general revenues				256,598,590	-	256,598,590
Change in net position				(2,936,364)	(3,946)	(2,940,310)
Net position, beginning				(30,752,044)	65,707	(30,686,337)
Net position, ending				$ (33,688,408)	$ 61,761	$ (33,626,647)

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

June 30, 2019

	General Fund	Debt Service Fund	Series 2017 Bonds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 75,300,680	$ 15,305,347	$ 4,006,562	$ 10,079,570	$ 104,692,159
Temporary investments	10,409,924	21,756	189,486,820	426,118	200,344,618
Receivables:					
Property taxes - delinquent	5,662,226	1,899,641	-	-	7,561,867
Allowance for uncollectible taxes	(890,102)	(298,624)	-	-	(1,188,726)
Due from other governments	4,738,610	-	-	954,154	5,692,764
Due from other funds	15,426	-	2,897	2,879,102	2,897,425
Other receivables	349,004	17,660	-	34,921	401,585
Inventory	297,333	-	-	-	297,333
Prepaid items	124,436	-	-	-	124,436
Total assets	$ 96,007,537	$ 16,945,780	$ 193,496,279	$ 14,373,865	$ 320,823,461
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 6,143,790	$ -	$ 10,397,647	$ 1,114,540	$ 17,655,977
Payroll deductions and withholdings payable	34,941	-	-	-	34,941
Accrued wages payable	17,145,362	-	-	222,511	17,367,873
Due to other funds	101,771	-	-	720,112	821,883
Due to other governments	-	2,870	-	-	2,870
Unearned revenue	330,690	-	-	418,669	749,359
Total liabilities	23,756,554	2,870	10,397,647	2,475,832	36,632,903
Deferred inflows of resources					
Deferred revenue - property taxes	4,772,124	1,601,017	-	-	6,373,141
Fund balances					
Non-spendable:					
Inventory	297,333	-		-	297,333
Prepaid item	124,436	-		-	124,436
Restricted for:					
Debt service	-	15,341,893		-	15,341,893
Authorized construction	-	-	183,098,632	4,920,015	188,018,647
Food service	-	-		2,706,108	2,706,108
Committed to:					
Board approved construction	-	-		2	2
Campus activities	-	-		2,042,737	2,042,737
Assigned to:					
Locally funded campus programs	-	-		2,229,171	2,229,171
Unassigned	67,057,090	-	-	-	67,057,090
Total fund balances	67,478,859	15,341,893	183,098,632	11,898,033	277,817,417
Total liabilities, deferred inflows of of resources, and fund balances	$ 96,007,537	$ 16,945,780	$ 193,496,279	$ 14,373,865	$ 320,823,461

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF BALANCE SHEET GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

For the year ended June 30, 2019

Total fund balances - governmental funds balance sheet	$ 277,817,417
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported in the funds.	623,511,323
Other long-term assets are not available to pay for current-period expenditures, and, therefore, are deferred in the funds.	6,373,141
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the statement of net position.	3,058,285
The following liabilities and deferred inflows and outflows of resources are not due and payable in the current period and, therefore are not reported in the funds:	
Bonds payable, including premiums	(824,002,797)
Less: deferred charges on refundings	27,496,468
Bond interest payable	(13,340,723)
Accretion payable	(26,386,933)
Net pension liability	(47,342,281)
Deferred outflows related to pension liability	28,217,933
Deferred inflows related to pension liability	(2,594,061)
Deferred outflows related to OPEB liability	10,943,420
Deferred inflows related to OPEB liability	(22,979,306)
Net OPEB liability	(72,667,791)
Compensated absences	(1,792,503)
Net position of governmental activities - statement of net position	$ (33,688,408)

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

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

For the year ended June 30, 2019

	General Fund	Debt Service Fund	Series 2017 Bonds	Other Governmental Funds	Total Governmental Funds
REVENUES					
Local and intermediate sources	$ 167,660,603	$ 55,630,335	$ 3,439,712	$ 12,312,391	$ 239,043,041
State program revenues	27,569,065	986,897	-	1,232,796	29,788,758
Federal program revenues	3,832,726	-	-	12,109,435	15,942,161
Total revenues	199,062,394	56,617,232	3,439,712	25,654,622	284,773,960
EXPENDITURES					
Current:					
Instruction	111,532,156	-	652,727	10,338,057	122,522,940
Instructional resources and media service	2,252,478	-	11,003	341,114	2,604,595
Curriculum and staff development	1,705,180	-	-	498,160	2,203,340
Instructional leadership	4,458,372	-	-	170,840	4,629,212
School leadership	10,120,865	-	-	16,087	10,136,952
Guidance, counseling, and evaluation services	6,441,373	-	-	401,557	6,842,930
Social work services	959,856	-	-	36,119	995,975
Health services	2,211,460	-	-	2,944	2,214,404
Student transportation	8,032,676	-	-	-	8,032,676
Food services	19,366	-	-	11,099,253	11,118,619
Extracurricular activities	6,057,778	-	135,447	2,669,819	8,863,044
General administration	6,777,507	-	-	211,848	6,989,355
Facilities maintenance and operations	19,832,091	-	-	206,836	20,038,927
Security and monitoring services	1,774,142	-	-	633,894	2,408,036
Data processing services	3,083,528	-	-	1,984,724	5,068,252
Community services	36,279	-	-	3,555,008	3,591,287
Debt service:				-	
Principal on long-term debt	-	18,154,603	-	-	18,154,603
Interest on long-term debt	-	37,170,534	-	-	37,170,534
Other debt service expenditures	-	1,514,506	-	-	1,514,506
Facilities acquisition and construction	1,180,078	-	68,119,800	7,716,575	77,016,453
Intergovernmental charges:					
Instructional services between public schools	6,191,968	-	-	-	6,191,968
Juvenile justice alternative education programs	55,427	-	-	-	55,427
Property tax appraisal services	1,939,619	-	-	-	1,939,619
Total expenditures	194,662,199	56,839,643	68,918,977	39,882,835	360,303,654
Excess (deficiency) of revenues over (under) expenditures	4,400,195	(222,411)	(65,479,265)	(14,228,213)	(75,529,694)
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	-	4,145,000	-	-	4,145,000
Payment to refunded bond escrow agent	-	(4,084,038)	-	-	(4,084,038)
Sale of real and personal property	151,334	-	-	-	151,334
Total other financing sources and (uses)	151,334	60,962	-	-	212,296
Net change in fund balances	4,551,529	(161,449)	(65,479,265)	(14,228,213)	(75,317,398)
Fund balances, beginning	62,927,330	15,503,342	248,577,897	26,126,246	353,134,815
Fund balances, ending	$ 67,478,859	$ 15,341,893	$ 183,098,632	$ 11,898,033	$ 277,817,417

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2019

Net change in fund balances - total governmental funds	$	(75,317,398)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay		70,037,315
Depreciation expense		(17,980,178)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in deferred tax revenue		1,721,345
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Bond proceeds, including premiums		(4,145,000)
Payment to refunded bond escrow agent		4,084,038
Repayment of bond principal		18,154,603
Bond refunding issue costs		1,450,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in bond interest payable		336,606
Change in accretion payable		1,389,157
Amortization of deferred charges on bond refundings		(1,608,802)
Amortization of bond premiums		4,455,162
Change in compensated absences		(243,089)
Change in net position attributable to the net pension liability		(4,146,561)
Change in net position attributable to the OPEB liability		(1,380,821)
The Internal Service Fund is used by management to charge the costs of insurance to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities.		257,259
Change in net position of governmental activities - statement of activities	$	(2,936,364)

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the year ended June 30, 2019

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Local and intermediate sources	$ 167,025,067	$ 167,025,067	$ 167,660,603	$ 635,536
State program revenues	27,414,307	27,414,307	27,569,065	154,758
Federal program revenues	2,041,000	2,275,790	3,832,726	1,556,936
Total revenues	196,480,374	196,715,164	199,062,394	2,347,230
EXPENDITURES				
Current:				
Instruction	112,810,507	112,542,449	111,532,156	1,010,293
Instructional resources and media service	2,285,752	2,258,871	2,252,478	6,393
Curriculum and staff development	1,948,753	1,974,421	1,705,180	269,241
Instructional leadership	4,629,504	4,593,614	4,458,372	135,242
School leadership	10,304,905	10,312,714	10,120,865	191,849
Guidance, counseling, and evaluation services	6,261,762	6,694,581	6,441,373	253,208
Social work services	1,018,142	991,958	959,856	32,102
Health services	2,188,458	2,282,720	2,211,460	71,260
Student transportation	8,288,741	8,447,370	8,032,676	414,694
Food services	10,000	20,000	19,366	634
Extracurricular activities	5,900,916	6,194,993	6,057,778	137,215
General administration	4,684,759	6,997,810	6,777,507	220,303
Facilities maintenance and operations	19,563,869	20,191,705	19,832,091	359,614
Security and monitoring services	1,564,484	2,279,589	1,774,142	505,447
Data processing services	3,052,963	3,191,723	3,083,528	108,195
Community services	59,172	59,172	36,279	22,893
Facilities acquisition and construction	173,200	3,555,728	1,180,078	2,375,650
Intergovernmental charges:				
Instructional services between public schools	7,278,194	7,278,194	6,191,968	1,086,226
Juvenile justice alternative education programs	-	160,000	55,427	104,573
Property tax appraisal services	1,987,525	1,987,525	1,939,619	47,906
Total expenditures	194,011,606	202,015,137	194,662,199	7,352,938
Excess (deficiency) of revenues over (under) expenditures	2,468,768	(5,299,973)	4,400,195	9,700,168
OTHER FINANCING SOURCES				
Sale of real and personal property	-	-	151,334	151,334
Total other financing sources and uses	-	-	151,334	151,334
Net change in fund balances	2,468,768	(5,299,973)	4,551,529	9,851,502
Fund balances, beginning	62,927,330	62,927,330	62,927,330	-
Fund balances, ending	$ 65,396,098	$ 57,627,357	$ 67,478,859	$ 9,851,502

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2019

	Business-type Activities Nonmajor Enterprise Fund	Governmental Activities Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,039	$ 3,696,877
Other receivables	2,382	2,271
Total assets	70,421	3,699,148
LIABILITIES		
Current liabilities:		
Accounts payable	8,660	16,028
Accrued expenses	-	624,835
Total liabilities	8,660	640,863
NET POSITION		
Unrestricted	61,761	3,058,285
Total net position	$ 61,761	$ 3,058,285

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the year ended June 30, 2019

	Business-type Activities Nonmajor Enterprise Fund	Governmental Activities Internal Service Fund
Operating Revenues		
Charges for services	$ 173,398	$ 464,572
Operating Expenses		
Payroll costs	-	207,313
Professional and contracted services	69,580	-
Supplies and materials	107,764	-
Total operating expenses	177,344	207,313
Operating income (loss)	(3,946)	257,259
Total net position, beginning	65,707	2,801,026
Total net position, ending	$ 61,761	$ 3,058,285

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2019

	Business-type Activities Nonmajor Enterprise Fund	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities:		
Receipts from interfund services provided	$ 174,594	$ 463,546
Payments to employees	-	(499,493)
Payments to suppliers	(176,481)	(22,138)
Net cash provided by (used in) operating activities	(1,887)	(58,085)
Net increase (decrease) in cash and cash equivalents	(1,887)	(58,085)
Cash and cash equivalents, beginning of the year	69,926	3,754,962
Cash and cash equivalents, end of the year	$ 68,039	$ 3,696,877
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ (3,946)	$ 257,259
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Decrease (increase) in other receivables	1,197	(1,027)
Increase (decrease) in accounts payable	862	(22,138)
Increase (decrease) in accrued expenses	-	(292,179)
Net cash provided by (used in) operating activities	$ (1,887)	$ (58,085)

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
FIDUCIARY FUNDS

June 30, 2019

	Private Purpose Trust		Agency Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	$	14,422	$	2,769,180
Due from other funds		-		-
Total assets	$	14,422	$	2,769,180
LIABILITIES				
Current liabilities:				
Accounts payable	$	-	$	35,176
Due to other funds		-		2,075,543
Due to student groups		-		658,461
Total liabilities		-	$	2,769,180
NET POSITION:				
Unrestricted		14,422		
Total net position	$	14,422		

The accompanying notes are an integral part of these financial statements

COMAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the year ended June 30, 2019

	Private Purpose Trust
ADDITIONS:	
Donations	$ 519
Investment income	292
Total additions	811
DEDUCTIONS:	
Scholarships provided	-
Change in net position	811
Total net position, beginning	13,611
Total net position, ending	$ 14,422

The accompanying notes are an integral part of these financial statements

(1) Summary of significant accounting policies

The financial reporting entity

This report includes those activities, organizations and functions which are related to the Comal Independent School District (the "District") and which are controlled by or dependent upon the District's governing body; the Board of School Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency's ("TEA") Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-wide and fund financial statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given 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 the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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 and fiduciary fund financial statements. Agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty 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 are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balance is considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The Series 2017 Bonds Fund is a major capital projects fund that includes the proceeds from the Series 2017 Unlimited Tax School Building Bonds to be used for authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

The Capital Projects Funds are governmental funds which include the proceeds from sales of bonds and other revenues to be used for authorized construction and other capital asset acquisitions. The Capital Projects Funds are used to account for the construction, improvement and renovation of school buildings in the District and the acquisition of land and equipment therefore.

The Enterprise Fund is a proprietary fund used to account for catering operations for meetings held by the District.

The Internal Service Fund is a proprietary fund and is used to account for the District’s workers compensation self-insurance fund.

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

The Private Purpose Trust Fund is a fiduciary trust fund and is used to account for the principal and income that benefit individuals in the form of scholarships.

The Agency Fund is an unbudgeted fund and is used to account for activities of student groups. This fund has no equity, assets are equal to liabilities, and it does not include revenues and expenses for general operations of the District.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Budgetary information

Budgets are prepared annually for the General Fund, the Debt Service Fund, and the National School Breakfast and Lunch Program on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by the end of June and is adopted by the Board at a public meeting after public notice of the meeting has been given no earlier than the 30^{th} day or later than the 10^{th} day before the public hearing. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was amended by the Board as needed throughout the year.

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity

Cash and cash equivalents – The District's cash and cash equivalents are considered to be cash-on-hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows of the Proprietary Funds, cash and cash equivalents include demand deposits and short-term investments with original maturities of three months or less.

Temporary investments – The District is entitled to invest any and all of its funds in obligations of, or guaranteed by, governmental entities, certificates of deposit and share certificates, fully collateralized repurchase agreements, a securities lending program, banker's acceptances, commercial paper, no-load money market mutual funds and no-load mutual funds, a guaranteed investment contract as an investment vehicle for bond proceeds provided it meets the criteria and eligibility requirements, and public funds investment pools. The local government investment pools are recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pool Participants*. The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policies. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

(1) Summary of significant accounting policies (continued)

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued)

Inventories – Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply and furniture and equipment inventory are recorded at cost (FIFO method) and are offset by a fund balance reserves which indicate that they do not represent "available expendable resources".

Prepaid items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are charged to expenditures when consumed.

Capital assets - Capital assets, which include land, construction in progress, buildings and improvements, and equipment and vehicles are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least $5,000. Such assets are recorded at historical cost, if purchased, or at acquisition value at the date of donation, if donated. The costs of normal maintenance and repairs that do not add to the value of these assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight line method over the following estimated useful lives: buildings and improvements – twenty to forty years, equipment and vehicles – five to fifteen years.

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

Accumulated sick leave liability – The District has established a sick leave policy whereby the payment of accrued sick leave applies to those employees of the District who are hired prior to July 31, 2009 and retire under the Teacher Retirement System of Texas ("TRS") while they are employed by the District and have at least five years of continuous service with the District. Compensation for any other type of absence does not accumulate, including vacations. The District's liability for accrued compensated absences as of June 30, 2019 was $1,792,503 and is included in the government-wide financial statements. A liability is reported as an expenditure in governmental funds only if it matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the General Fund.

Arbitrage – The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury of investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The U.S. Treasury requires payment for each issue every five years. The estimated liability is updated annually for any tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. At June 30, 2019, the District had no liability for arbitrage.

Pensions – The fiduciary net position of 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

(1) Summary of significant accounting policies (continued)

Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or equity (continued)

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 postemployment benefits – The fiduciary net position of the 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 other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to other postemployment 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.

Deferred outflows and inflows of resources – The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represents the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See note 7 and note 13 for additional information on deferred inflows and outflows of resources.

Fund equity – The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes fund balance classification that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of these resources reported in governmental funds. See note 12 for additional information on those fund balance classifications.

Fair value measurements – The District complies with GASB Statement No. 72, *Fair Value Measurement and Application,* which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market that the District has the ability to access.

- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the District.

- Level 3 are unobservable inputs that reflect the District's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

(1) Summary of significant accounting policies (continued)

Fair value measurements (continued)

There are three general valuation techniques that may be used to measure fair value:

- Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

- Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

- Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

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

(2) Deposits and investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent, approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. Therefore the District is not exposed to custodial credit risk. Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

(2) Deposits and investments (continued)

At June 30, 2019, the carrying amount of the District's deposits was $4,910,497 and the bank balance was $7,140,005. The District's deposits with financial institutions at June 30, 2019 and during the year ended June 30, 2019 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.

Funds were properly secured at all times throughout the year and the following is disclosed regarding coverage of combined balances on the date of highest deposit;

Name of depository bank: Wells Fargo Bank

Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was $22,479,803.

Largest cash, savings and time deposit combined account balance amounted to $10,689,664 and occurring during the month of March 2019.

Total amount of FDIC coverage at the time of the highest combined balance was $250,000.

The District maintains a cash pool consisting of demand deposits. The combined pool is available for use by most Special Revenue Funds. If a fund overdraws its share of the pool, the overdraft is reported as an interfund payable in that fund. The offsetting interfund receivable is reported in the Community Education Fund.

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy. The District's deposits and investments are invested pursuant to the investment policy, which is approved annually by the Board.

The primary objectives of the District's investment strategy for operating and agency funds, in order of priority, are safety, investment liquidity and maturity sufficient to meet anticipated cash flow requirements. The primary objective of the District's investment strategy for Debt Service and Capital Projects Funds is sufficient investment liquidity to meet related obligations.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy and the Public Funds Investment Act: obligations of, or guaranteed by, governmental entities, certificates of deposit and share certificates, fully collateralized repurchase agreements, a securities lending program, banker's acceptances, commercial paper, no-load money market mutual funds and no-load mutual funds, a guaranteed investment contract as an investment vehicle for bond proceeds provided it meet the criteria and eligibility requirements, and public funds investment pools.

(2) Deposits and investments (continued)

Temporary investments and cash equivalents held at June 30, 2019 consisted of the following:

TYPE		FAIR VALUE	WEIGHTED AVERAGE MATURITY (DAYS)	STANDARD AND POOR'S RATING
Investments:				
Repurchase Agreement	$	189,912,938	821	A
Certificates of Deposit		6,431,480	332	Various
Federal Agency Coupon Securities:				
Federal Home Loan Mortgage Corporation		1,999,038	26	AA+
Federal Home Loan Bank		2,001,161	286	AA+
Total Investments	$	200,344,617		
Cash Equivalent Investments:				
Local Government Investment Pools:				
TexPool	$	90,388,198	35	AAAm
LOGIC		7,849,810	49	AAAm
Lone Star		7,484,790	26	AAA
Money Market Accounts		600,785	27	A-1+
Total Cash Equivalent Investments		106,323,583		
Total Investment Portfolio Weighted Average			530	
Cash Depositories - Wells Fargo		4,910,497		
Cash On Hand		6,600		
Total Cash and Cash Equivalents	$	111,240,680		

The District had investments in three external local government investment pools at June 30, 2019: Texas Local Government Investment Pool ("TexPool"), Lone Star Investment Pool ("Lone Star") and Local Government Investment Cooperative ("LOGIC"). Although TexPool, Lone Star, and LOGIC are not registered with the SEC as investment companies, they operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These investments are stated at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

(2) Deposits and investments (continued)

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool's investment policy; this board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors manage daily operations of TexPool under a contract with the Comptroller and is the investment manager for the pool. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

LOGIC is administered by Hilltop Securities, Inc. and JPMorgan Chase. LOGIC is overseen by a six member governing board. The pool received a rating of AAAm by Standard and Poors and the investment program is tailored to the investment needs of local governments within the State of Texas. LOGIC's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

Lone Star is administered by the Texas Association of School Boards, Inc. and First Public, LLC. Lone Star is overseen by an eleven member governing board, all of whom are participants in the Lone Star pool. The board meets quarterly to review operations, make any revisions to the investment policy, review financial activity and approve contractor agreements. Lone Star also has an advisory board consisting of participants and nonparticipants. CAPTRUST Financial Advisors is an independent consultant for Lone Star that reviews daily operations, analyzes all investment transactions for compliance with the Public Funds Investment Act, and performs monitoring activities. The State Street Bank provides custody and valuation services for Lone Star.

American Beacon Advisors and Standish Mellon provide other investment management services. Lone Star's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

In accordance with GASB Statement No. 79, the local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption rates.

The District invests excess funds in certificates of deposit, money market accounts, a fully-collateralized repurchase agreement, and federal agency coupon securities.

A fully-collateralized flexible repurchase agreement was entered into by the District through proceeds received from the issuance of the 2017 bonds. The agreement is with Deutsche Bank Securities, Inc., who serves as the repurchase provider, and Wells Fargo Bank, who serves as the custodian. The agreement matures on September 30, 2021, and the District earns a fixed annual interest rate of 1.5%.

Federal agency coupon securities are valued using Level 2 inputs that are based on market data obtained from independent sources. The investments are reported by the District at fair value in accordance with GASB Statement No. 72. Certificates of deposit, money market accounts, and the fully-collateralized repurchase agreement are reported by the District at amortized cost under GASB Statement No. 31.

(2) Deposits and investments (continued)

Credit risk – Credit risk is the possibility of loss occurring due to the inability of an investment instrument to meet financial obligations. As of June 30, 2019, investments were diversified in local governmental investment pools, money market accounts, certificates of deposit, a fully-collateralized repurchase agreement, and federal agency coupon securities with ratings from Standard and Poor's in compliance with the District's investment policy.

Custodial credit risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At June 30, 2019, the District was not exposed to custodial credit risk.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At June 30, 2019, the District had 62% of its investment portfolio invested in a fully-collateralized repurchase agreement.

Interest rate risk – As a means of minimizing risk of loss due to interest rate fluctuations, the District's investment policy requires the District to monitor interest rate risk using weighted average maturity and specific identification. 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. Two years is the maximum period of time before maturity unless the Board specifically authorizes a longer maturity for a given investment, within legal limits. At June 30, 2019, the District was not exposed to significant interest rate risk.

(3) Property taxes

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The District's appraisal district is responsible for the recording and appraisal of all property in the District. Under the Code, the District's Board sets the tax rates on property and the County Tax Assessor/Collector provides tax collection services. The appraisal district is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals, and if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and penalties and interest that are ultimately imposed. The assessed value at January 1, 2018, upon which the October 2018 levy was based was $16,301,961,114. The District levied taxes based on a combined tax rate of 1.39 per $100 of assessed valuation for local maintenance (general governmental services) and debt service.

(3) Property taxes (continued)

In May 1993, the Texas Legislature passed Senate Bill 7. Senate Bill 7 significantly changed certain aspects of the school finance system relative to accountability, teacher appraisal, career ladder, funding allotments, district local share, distribution of Foundation School Funds, tax limitations and rollback tax provisions. Funding equalization for school districts is a major component of the bill. Districts with wealth per student in excess of $319,500 are required to take action to bring their wealth down to the equalized State level. However, the final determination of whether a school district will be required to make recapture payments is based on the district's tax effort and the extent to which the district's wealth per WADA exceeds the first equalized wealth level of $514,000. The District made a recapture payment during the current year in the amount of $6,191,968.

(4) Due from other governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. These amounts are reported in the basic financial statements as Due from Other Governments and are summarized below as of June 30, 2019.

	General Fund	Nonmajor Governmental Fund	Total
State entitlements	$ 4,738,610	$ -	$ 4,738,610
Federal and state grants	-	954,154	954,154
Total	$ 4,738,610	$ 954,154	$ 5,692,764

(5) Interfund receivables and payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds".

The composition of interfund balances as of June 30, 2019 was as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Special Revenue Funds	$ 15,290
General Fund	Fiduciary Fund	136
Series 2017 Bonds	Nonmajor Capital Projects Fund	2,897
Nonmajor Special Revenue Fund	General Fund	101,771
Nonmajor Special Revenue Fund	Nonmajor Special Revenue Fund	604,207
Nonmajor Special Revenue Fund	Fiduciary Fund	2,075,406
Nonmajor Capital Projects Fund	Nonmajor Capital Projects Fund	97,718
		$ 2,897,425

(6) Capital assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Transfers/Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 51,340,554	$ 84,830	$ -	$ 51,425,384
Construction in progress	103,373,721	66,787,515	(90,294,061)	79,867,175
Total capital assets not being depreciated	154,714,275	66,872,345	(90,294,061)	131,292,559
Capital assets being depreciated:				
Buildings and improvements	580,778,122	661,498	90,294,061	671,733,681
Equipment and vehicles	37,280,789	2,503,472	(804,465)	38,979,796
Total capital assets being depreciated	618,058,911	3,164,970	89,489,596	710,713,477
Less: accumulated depreciation for:				
Buildings and improvements	(174,735,384)	(15,556,681)	-	(190,292,065)
Equipment and vehicles	(26,583,616)	(2,423,497)	804,465	(28,202,648)
Total accumulated depreciation	(201,319,000)	(17,980,178)	804,465	(218,494,713)
Total capital assets being depreciated, net	416,739,911	(14,815,208)	90,294,061	492,218,764
Governmental activities capital assets, net	$ 571,454,186	$ 52,057,137	$ -	$ 623,511,323

(6) Capital assets (continued)

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

Governmental activities:		
Instruction	$	10,075,611
Instructional resources and media services		214,188
Curriculum and staff development		181,191
Instructional leadership		380,681
School leadership		833,607
Guidance, counseling, and evaluation services		562,725
Social work services		81,904
Health services		199,149
Student transportation		661,333
Food services		928,148
Extracurricular activities		728,848
General administration		574,766
Facilities maintenance and operations		1,647,890
Security and monitoring services		198,024
Data processing services		416,785
Community services		295,328
Total depreciation expense - governmental activities	$	17,980,178

(7) Deferred charges on bond refundings

The following is a summary of changes in deferred charges on bond refundings for the year ended June 30, 2019:

	Beginning Balance	Additions	Retirements	Ending Balance
Deferred charges on refundings	$ 29,006,232	$ 99,038	$ (1,608,802)	$ 27,496,468

(8) Long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2019:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds	$ 767,165,106	$ 4,145,000	$ (23,589,603)	$ 747,720,503	$ 21,775,324
Accretion payable	27,776,090	3,041,240	(4,430,397)	26,386,933	4,594,676
Premiums on bonds	80,737,456	-	(4,455,162)	76,282,294	4,455,162
Compensated absences	1,549,414	638,933	(395,844)	1,792,503	597,514
Total	$ 877,228,066	$ 7,825,173	$ (32,871,006)	$ 852,182,233	$ 31,422,676

Bonded debt consisted of the following at June 30, 2019:

General Obligation Bond Series	Date of Issue	Amounts of Original Issue	Maturity Date	Interest Rate	Outstanding at June 30, 2019	Due Within One Year
2005 Ref	12/8/2004	$ 30,089,927	2020	1.90-4.28%	$ 1,870,324	$ 1,870,324
2005A	3/3/2005	56,619,965	2023	2.40-4.55%	3,839,965	-
2012 Ref	5/1/2012	15,240,000	2028	2.00-5.00%	11,335,000	1,040,000
2012A Ref	12/10/2012	146,390,000	2033	3.00-5.00%	121,780,000	680,000
2015 Ref	2/12/2015	79,745,000	2036	2.00-5.00%	72,555,000	1,385,000
2015A	8/12/2015	19,725,000	2020	2.00-5.00%	4,705,000	4,705,000
2015B	8/12/2015	118,755,000	2040	2.00-5.00%	114,955,000	1,250,000
2015A Ref	9/24/2015	133,150,000	2038	3.00-5.00%	125,815,000	4,450,000
2016 Ref	11/30/2016	51,660,214	2038	2.00-4.00%	47,315,214	910,000
2017	7/19/2017	227,160,000	2042	3.25-5.00%	226,915,000	1,290,000
2017 Ref	12/20/2017	13,335,000	2028	2.00-5.00%	12,490,000	50,000
2018 Ref	12/11/2018	4,145,000	2020	2.36%	4,145,000	4,145,000
		$ 896,015,106			$ 747,720,503	$ 21,775,324

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds $0.50 per $100 of assessed valuation of taxable property within the District. The District currently has a debt service tax rate of $0.35.

(8) Long-term liabilities (continued)

On December 11, 2018, the District issued $4,145,000 of Unlimited Tax Refunding Bonds, Series 2018, to refund $5,435,000 of previously issued District bonds in order to lower its overall debt service requirements. The proceeds, along with $1,450,000 of District funds were deposited with an escrow agent in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and liabilities are not included in the District's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by $99,038. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. The refunding reduced debt service payments by $915,879 and resulted in an economic gain of $1,457,091.

In the current year and prior year, the District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and the defeased bonds are not included in the District's financial statements. At June 30, 2019, outstanding bonds of $0 are considered defeased.

The annual principal installments for each of the outstanding issues vary each year.

As of June 30, 2019, the debt service requirements to maturity for general obligation bonds are as follows:

	Governmental Activities		
Year Ended June 30,	Principal	Interest	Total
2020	$ 21,775,324	$ 36,612,411	$ 58,387,735
2021	24,700,000	31,256,963	55,956,963
2022	21,587,331	35,921,631	57,508,962
2023	24,202,634	35,163,729	59,366,363
2024	33,895,000	28,150,938	62,045,938
2025-2029	187,750,000	115,584,938	303,334,938
2030-2034	202,975,000	73,442,063	276,417,063
2035-2039	179,740,214	65,458,486	245,198,700
2040-2042	51,095,000	4,312,700	55,407,700
Total	$ 747,720,503	$ 425,903,859	$ 1,173,624,362

The outstanding 2005, 2005A, and 2016 Series Bonds include Serial and Capital Appreciation Bonds. The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

(9) Operating lease obligations

At June 30, 2019, the District was obligated under operating leases for portable buildings and copiers. Future minimum lease payments on these operating leases are as follows:

2020	$ 243,580
2021	128,281
2022	128,281
Total	$ 500,142

Rent expense incurred under operating leases for the year ended June 30, 2019 was $672,287.

(10) Unearned revenue

At June 30, 2019, unearned revenue in the governmental funds consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Federal and state grants	$ -	$ 418,669	$ 418,669
Other	330,690	-	330,690
Total	$ 330,690	$ 418,669	$ 749,359

(11) Revenues from local and intermediate sources

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

	General Fund	Debt Service Fund	Series 2017 Bond Fund	Nonmajor Governmental Funds	Total
Property taxes	$ 163,084,507	$ 55,011,340	$ -	$ -	$ 218,095,847
Investment earnings	1,867,305	271,748	3,439,712	338,433	5,917,198
Penalties, interest, and other tax related income	1,226,907	347,247	-	-	1,574,154
Tuition and fees from patrons	284,688	-	-	3,670,915	3,955,603
Food service	-	-	-	5,396,129	5,396,129
Co-curricular student activities	469,347	-	-	2,851,841	3,321,188
Rent	164,767	-	-	-	164,767
Gifts and donations	32,121	-	-	50,077	82,198
Other	530,961	-	-	4,996	535,957
Total	$ 167,660,603	$ 55,630,335	$ 3,439,712	$ 12,312,391	$ 239,043,041

(12) Fund balances

The District complies with GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions,* which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable – Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned – For the General Fund, the Board, or an official or body that has been delegated authority by the Board, may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned – Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances are included in the Governmental Funds Balance Sheet on page 18.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has delegated authority to the Superintendent or the Chief Financial Officer to assign fund balance for a specific purpose. 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 is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

(13) Defined pension plan

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

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

(13) Defined pension plan (continued)

Pension plan fiduciary net position

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

Benefits provided

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

(13) Defined pension plan (continued)

Contributions (continued)

	2018	2019
Contribution Rates:		
Member	7.7%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%
Employers	6.8%	6.8%
District contributions	$2,887,693	$ 3,682,041
Member contributions	$9,554,600	$10,146,442
NECE on-behalf contributions	$7,397,326	$ 7,222,061

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 member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

- During a new member's first 90 days of employment.

- When any part or all of an employee's salary is paid by federal funding sources, 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 TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement 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.

(13) Defined 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	8.00%
Long-term expected investment rate of return	8.00%
Inflation	2.50%
Salary increases including inflation	3.50% to 9.50%
Last year in the projection period (100 years)	2116
Benefit changes during the year	None
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the three year period ending August 31, 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 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.

(13) Defined pension plans (continued)

Discount rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the TRS's target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation *	Long-Term Expected Arithmetic Real of Return **	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	5.7%	1.04%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.95%	0.8%
Directional Hedge Funds	4.0%	3.53%	0.14%
Private Equity	13.0%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11.0%	1.11%	0.12%
Absolute Return	0.0%	-	-
Stable Value Hedge Funds	4.0%	3.09%	0.12%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.7%	0.02%
Real Assets	14.0%	5.21%	0.73%
Energy and Natural Resources	5.0%	7.48%	0.37%
Commodities	0.0%	-	-
Risk Parity			
Risk Parity	5.0%	3.7%	0.18%
Inflation Expectation			2.3%
Volatility Drag ***			-0.79%
Total	100.0%		7.25%

* Target allocations are based on the plan year 2016 policy model.
** Capital market assumptions come from Aon Hewitt (2017 Q4).
*** The volatility drag results from the conversion between arithmetic and geometric mean returns.

(13) Defined pension plans (continued)

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	$ 71,450,854	$ 47,342,281	$ 27,824,961

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 $47,342,281 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 47,342,281
State's proportionate share that is associated with the District	118,054,876
Total	$ 165,397,157

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 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 0.0860%, which was an increase of 0.0033% from its proportion as of August 31, 2017.

Changes since the prior actuarial valuation

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

- The 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.

(13) Defined pension plans (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

Changes since the prior actuarial valuation (continued)

- Economic assumptions including rates of salary increase for individual participants were updated based on the same experience study.
- The discount rate was 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 $11,684,286 and revenue of $7,220,783 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 295,093	$ 1,161,593
Changes in actuarial assumptions	17,069,173	533,412
Difference between projected and actual investment earnings	-	898,285
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	7,624,771	771
Contributions paid to TRS subsequent to the measurement date	3,228,896	-
Total	$ 28,217,933	$ 2,594,061

(13) Defined pension plans (continued)

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions (continued)

The net amounts of the District'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	$ 6,156,616
2021	4,266,225
2022	3,662,391
2023	3,316,839
2024	3,007,890
Thereafter	1,985,015
Total	$ 22,394,976

(14) Defined other postemployment benefit plan

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 postemployment benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB plan fiduciary net position

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

Benefits provided

TRS-Care provides 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 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 postemployment benefit changes; including automatic COLAs.

(14) Defined other postemployment benefit plan (continued)

Benefits provided (continued)

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-Care Monthly for Retirees Effective January 1, 2018 - 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 on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.203 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.

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%
District contributions	$ 709,991	$1,110,347
Member contributions	$ 751,041	$ 855,713
NECE on-behalf contributions	$1,114,211	$1,728,647

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

(14) Defined other postemployment benefit plan (continued)

Contributions (continued)

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 FY 2018 bringing the total appropriations received on 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 actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

Rates of mortality
Rates of retirement
Rates of termination
Rates of disability incidence
General inflation
Wage inflation
Expected payroll growth

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%
Single 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 claims costs.
Payroll growth rate	2.50%
Projected salary increase	3.05% to 9.05%, including inflation
Healthcare trend rates	6.75% to 9.00%
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc postemployment 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.

(14) Defined other postemployment benefit plan (continued)

Discount rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .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 projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Discount rate sensitivity analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.69%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of the net OPEB liability	$ 86,499,639	$72,667,791	$61,725,909

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEBs

At August 31, 2019, the District reported a liability of $72,667,791 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$ 72,667,791
State's proportionate share that is associated with District	109,444,762
Total	$ 182,112,553

(14) Defined other postemployment benefit plan (continued)

OPEB liabilities, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEBs (continued)

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 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 0.146% compared to 0.137% as of June 30, 2018.

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate is used.

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
District's proportionate share of the net OPEB liability	$ 60,351,784	$72,667,791	$88,888,239

Changes since the Prior Actuarial Valuation

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

- 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.
- 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.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period August 31, 2017. This change increased the total OPEB liability.
- 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.
- Change of benefit terms since the prior measurement date – please see the 2018 TRS CAFR, page 68, section B for a list of the changes made effective September 1, 2017 by the 85th Texas Legislature.

For the year ended June 30, 2019, the District recognized OPEB expense of $3,980,943 and revenue of $1,509,959 for support provided by the State.

(14) Defined other postemployment benefit plan (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,856,210	$ 1,146,804
Changes in actuarial assumptions	1,212,629	21,832,502
Difference between projected and actual investment earnings	12,709	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	4,919,833	-
Contributions paid to TRS subsequent to the measurement date	942,039	-
Total	$ 10,943,420	$ 22,979,306

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,	Pension Expense Amount
2020	$ (2,248,007)
2021	(2,248,007)
2022	(2,248,007)
2023	(2,250,411)
20124	(2,251,785)
Thereafter	(1,731,708)
Total	$ (12,977,925)

(15) Health care coverage

During the year ended June 30, 2019, employees of the District were covered by a health insurance plan (the "Plan"). The District contributed $390 per month per employee to the Plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The District recognizes as revenues and expenditures retiree drug subsidy reimbursements under the provisions of Medicare Part D made by the federal government to the TRS on behalf of the District. For the year ended June 30, 2019, reimbursements of $401,062 were received by TRS and allocated to the District.

(16) Workers' compensation plan

The District has a partially self-insured workers' compensation plan administered by Claims Administrative Services, who acts on behalf of the self-funded pool. Contributions are made based on statutory rates established for the District's various types of employees. The District opted not to purchase individual stop-loss coverage; however, the District is protected against unanticipated catastrophic aggregate loss by stop-loss coverage purchased by Claims Administrative Services. A reconciliation of the estimated claim liability is as follows:

Year Ended	Beginning Liability	Estimated Current Year Claims	Claim Payments	Ending Liability
June 30, 2017	$ 674,017	$ 322,626	$ (357,714)	$ 638,929
June 30, 2018	638,929	1,132,419	(854,334)	917,014
June 30, 2019	917,014	162,000	(454,179)	624,835

(17) Tax abatements

On November 17, 2011, the District's Board approved an agreement with TXI Operations, LP ("TXI") for a Limitation on Appraised Value of Property for School District Maintenance and Operations pursuant to Chapter 313 of the Texas Tax Code, i.e. the Texas Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. TXI qualified for a tax limitation agreement under Texas Tax Code Section 313.024(b)(5), as a manufacturing project.

Value limitation agreements are a part of a state program, originally created in 2001 which allows school districts to limit the taxable value of an approved project for maintenance and operations for a period of years specified in statute. The projects under the Chapter 313 agreement must be consistent with the State of Texas' goal to encourage large scale capital investments in the state. Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant, including TXI has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, the agreement was found to have done so by both the District's Board and the Texas Comptroller's Office, which recommended approval of the project.

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that TXI terminates the agreement without the consent of the District, or in the event that TXI or its successor-in-interest fails to comply in any material respect with the terms of the agreement or to meet any material obligation under this agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code Section 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code Section 33.01(c), or its successor statute. The

(17) Tax abatements (continued)

agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of this report, the applicant company is in full compliance with all of its obligations under law and the agreement itself.

(A) Project Value	(B) Project's Value Limitation Amount	(C) Amount of Applicant's M&O Taxes Paid	(D) Amount of Applicant's M&O Taxes Reduced	(E) Company Revenue/Loss Payment to School District	(F) Company Supplemental Payment to School District	(G) Net Benefit (Loss) to the School District (C+E+F)
$ 179,109,291	$ 100,000,000	$ 1,040,000	$ 822,737	$ 157,213	$ 199,657	$ 1,396,870

(18) Risk management

The District's risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, and other miscellaneous bonds. During the year ended June 30, 2019, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

(19) Commitments and contingencies

The District participates in a number of federal financial assistance programs. Although the District grant programs have been audited in accordance with the provisions of the Uniform Guidance through June 30, 2019, these programs are subject to financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expect such amounts, if any, to be immaterial.

As of June 30, 2019, the District was committed under construction contracts with the following remaining balances:

Project Name	Contract Amount	Paid to Date	Commitment Balance Remaining	Retainage Payable Amount
Comal High School #4 (DHS)	$ 88,581,559	$ 49,083,751	$ 39,497,808	$ 2,583,355
Comal High School #5 (KRHS)	123,786,382	10,610,899	113,175,483	558,469
Elastrometric Coating (SBMS, CHMS, MVMS, RCES)	182,500	156,038	26,462	8,213
Data Center	2,039,501	1,727,013	312,488	90,895
Turf and Track Replacement (SVHS)	2,766,006	499,423	2,266,583	26,285
Total Construction Commitments	$ 217,355,948	$ 62,077,124	$ 155,278,824	$ 3,267,217

(20) Deficit net position

At June 30, 2019, the District has a deficit net position in the government-wide statement of net position. This deficit is due to the effect of implementing GASB Statements 68 and 75 related to net pension liability and OPEB liability.

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APPENDIX D

Form of Opinion of Bond Counsel

_____________, 2020

$________________
COMAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in
Comal, Bexar, Guadalupe, Hays and Kendall Counties)
UNLIMITED TAX REFUNDING BONDS, SERIES 2020

WE HAVE ACTED as Bond Counsel for the COMAL INDEPENDENT SCHOOL DISTRICT (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and for no other purpose. In rendering the opinion herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds including the Escrow Agreement between the District and Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas, as Escrow Agent (the "Escrow Agreement") and the certificate of SAMCO Capital Markets, Inc., San Antonio, Texas, in its capacity as Financial Advisor to the District, with respect to the sufficiency of the amount initially deposited to the Escrow Fund to accomplish the refunding purposes of the Bonds (the "Sufficiency Certificate") all as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

THE BONDS are being issued to provide funds to be used (i) to establish an escrow fund pursuant to the Escrow Agreement between the District and Escrow Agent to refund those certain outstanding obligations of the District, and (ii) to pay for costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms. The Refunded Bonds, as defined in the Order, being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Fund and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. The Refunded Bonds being refunded, discharged, paid, and retired with certain of the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapters 1207 and 1371, Texas Government Code, as amended. In rendering this opinion, we have relied upon the verifications contained in the Sufficiency Certificate as to the sufficiency of the cash deposited, without regard to investment, with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Bonds.

The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases.

The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limits as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, in assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes.

WE EXPRESS NO FURTHER OPINION with respect to any 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 earning income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or have paid or incurred certain expenses allocable to, tax-exempt obligations.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the

Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINION IS BASED on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

Respectfully,

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Financial Advisory Services
Provided By:

SAMCO Capital