

PRELIMINARY OFFICIAL STATEMENT

Dated November 6, 2020

NEW ISSUE - BOOK-ENTRY-ONLY

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

Interest on the Bonds (defined below) is not excludable from gross income for federal income tax purposes under existing law. See "FEDERAL INCOME TAX TREATMENT OF THE BONDS" herein.

\$90,699,869.60*

BOERNE INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Kendall, Bexar and Comal Counties, Texas)

UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

Dated Date: November 15, 2020

Due: February 1, as shown on page -ii- herein

The "Boerne Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020," which are issued in part as current interest bonds (the "Current Interest Bonds" or "CIBs") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds" or "CABs" and, together with the Current Interest Bonds (the "Bonds"), as shown on page -ii- of this Official Statement, are direct obligations of the Boerne Independent School District (the "District") and are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, on 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 Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371" and together with Chapter 1207, the "Act") and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on October 20, 2020. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Interest on the CIBs will accrue from the Dated Date as shown above, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year, commencing February 1, 2021, and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the CABs will accrete from the date of their initial delivery to the Underwriters (defined below) and will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2021 until stated maturity or prior redemption. The principal of and accreted/compounded interest on the CABs due at stated maturity or prior redemption (the "Maturity Value") is payable at stated maturity or prior redemption. The CIBs will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity and the CABs will be issued in integral multiples of \$5,000 of Maturity Value. 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 or Maturity Value, as appropriate, 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, or Maturity Value, as appropriate, 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 ad valorem unlimited 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, Maturity Values, Interest Rates, Initial Yields, CUSIP Numbers, and Redemption Provisions for the Bonds, see page -ii- herein

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel McCall, Parkhurst & Horton, L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about December 17, 2020.

RBC Capital Markets

Citigroup

Piper Sandler & Company

* Preliminary, subject to change.

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

\$90,699,869.60*

**BOERNE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020**

CUSIP No. Prefix 097067 ⁽¹⁾

\$84,465,000 Current Interest Bonds

Stated Maturity February 1	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽¹⁾
2022	1,375,000.00			
2023	2,375,000.00			
2024	2,335,000.00			
2025	1,995,000.00			
2026	1,885,000.00			
2027	1,870,000.00			
2028	1,855,000.00			
2029	1,895,000.00			
**	**			
**	**			
2032	6,580,000.00			
2033	6,635,000.00			
2034	6,690,000.00			
2035	6,480,000.00			
2036	4,100,000.00			
2037	5,745,000.00			
2038	5,650,000.00			
2039	5,765,000.00			
2040	5,560,000.00			
2041	5,385,000.00			
2042	5,250,000.00			
2043	5,040,000.00			

(Interest to accrue from the Dated Date)

\$6,234,869.60 Premium Capital Appreciation Bonds

Stated Maturity February 1	Original Principal Amount (\$)	Initial Offering Price / \$5,000	Maturity Value (\$)	Yield to Maturity (%)	CUSIP No. Suffix⁽¹⁾
2030					
2031					

(Interest to accrete from the date of initial delivery to the Underwriters)

Redemption

The District reserves the right to redeem the CIBs 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 CIBs of consecutive maturity 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. The CABs are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2028, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) on the date fixed for redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.

* 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 Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

BOERNE INDEPENDENT SCHOOL DISTRICT
235 Johns Road
Boerne, Texas 78006

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Years Served</u>	<u>Term Expires May</u>	<u>Occupation</u>
Maritza Gonzalez Cooper	President	7	2022	Business Owner
Donna Sharp	Vice President	6	2023	Office Manager
Richard Sena	Secretary	6	2023	Insurance Broker
Alan Rich	Trustee	14	2021	Certified Public Accountant
David Spencer	Trustee	1	2022	Business Owner
Joe Tidwell	Trustee	5	2021	Data Science Industry
Carlin Friar	Trustee	5	2021	Banker

ADMINISTRATION - FINANCE CONNECTED

<u>Name</u>	<u>Title</u>	<u>Total Years Experience</u>	<u>Total Years With District</u>
Dr. Thomas O. Price	Superintendent of Schools	32	4
Tish Grill*	Chief Financial Officer	35	6

** Ms. Grill has announced her intent to retire effective December 31, 2020. The Board of Trustees named Wesley Scott as the new Chief Financial Officer at the October 20, 2020 regular meeting of the Board of Trustees. Mr. Scott will join the District effective November 5, 2020.*

CONSULTANTS AND ADVISORS

Belt, Harris, Pechacek, LLP Houston, Texas	Certified Public Accountants
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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USE OF INFORMATION IN OFFICIAL STATEMENT

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 shall 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 pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding (i) 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, and (ii) the Texas Permanent School Fund Guarantee Program described in the caption "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" as such information has been provided by the Texas Education Agency.

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

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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 elsewhere in this Official Statement:

THE DISTRICT The Boerne Independent School District (the "District") is located primarily in Kendall County in south central Texas (the "State") approximately 30 miles northwest of downtown San Antonio. The District is approximately 359.52 square miles in area and serves a population of approximately 46,878. 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 CURRENT INTEREST BONDS The Current Interest Bonds (or, the "CIBs") mature on February 1 in each of the years 2022 through 2029, inclusive, and 2032 through 2043, inclusive.

Interest on the CIBs 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.

THE PREMIUM CAPITAL APPRECIATION BONDS The Premium Capital Appreciation Bonds (or, the "CABs" and, together with the CIBs, the "Bonds") mature on February 1 in the years 2030 and 2031.

Interest on the CABs will accrete from the date of their initial delivery to the Underwriters and will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2021, until stated maturity or prior redemption.

DATED DATE November 15, 2020.

REDEMPTION The District reserves the right to redeem the CIBs 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 CIBs of consecutive maturity 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. The CABs are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2028, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) on the date fixed for redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied on all taxable property located therein, without legal limitation as to rate or amount.

FEDERAL INCOME TAX TREATMENT OF THE BONDS ... Interest on the Bonds is not excludable from gross income for federal income tax purposes. (See "FEDERAL INCOME TAX TREATMENT OF THE BONDS" herein).

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.

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

MUNICIPAL BOND RATINGS	The District has made application to Moody's Investors Service, Inc. ("Moody's") for a contract rating on the Bonds. Moody's generally rates all bonds guaranteed by the Texas 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 Ratings" herein.
FUTURE BOND ISSUES	The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about December 17, 2020.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

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PRELIMINARY OFFICIAL STATEMENT

relating to

\$90,699,869.60*

BOERNE INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Kendall, Bexar and Comal Counties, Texas)

UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020

INTRODUCTION

This Official Statement of the Boerne Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$90,699,869.60* Unlimited Tax Refunding Bonds, Taxable Series 2020, which are issued in part as current interest bonds (the "Current Interest Bonds" or "CIBs") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds" or "CABs" and, together with the CIBs, 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 and the Escrow Agreement (as defined herein) will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Market 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).

INFECTIOUS DISEASE OUTBREAK - COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition certain local officials have also declared a local state 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. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments. Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-30 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/coronavirus>. 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.

The 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, the 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 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 2020-2021 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 and 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 debt, 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 produce debt service savings for the District.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow and Trust Agreement dated as of October 20, 2020 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled redemption date (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. The funds held by the Escrow Agent in the Escrow Fund will be used to purchase a portfolio of securities authorized under Section 1207.062, Texas Government Code (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest of the Refunded Obligations.

Ritz & Associates PA (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters that the Escrowed Securities deposited under the Escrow Agreement will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund established under the Escrow Agreement, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations addressed by such Escrow Agreement on their scheduled interest payment dates and redemption dates. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds. See "OTHER PERTINENT INFORMATION - VERIFICATION OF MATHEMATICAL COMPUTATIONS."

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Report (defined herein) of the Verification Agent, that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment. 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, if any, will be applied approximately as follows:

Sources of Funds	
Par Amount of the CIBs	\$ _____
Original Principal Amount of CABs	
[Net] Reoffering Premium on the CIBs and the CABs	
Accrued Interest on the CIBs	
Transfers/District Contribution	
Total Sources	\$ _____
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ _____
Deposit to Bond Fund	
Underwriters' Discount	
Costs of Issuance and Contingency	
Total Uses	\$ _____

THE BONDS

General Description

The Bonds will be dated November 15, 2020 (the "Dated Date"). The CIBs 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 CIBs 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. The CABs will accrete in value as described below from the date of their initial delivery to the Underwriters, and such interest will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2021 until stated maturity or prior redemption and will be payable at stated maturity or prior redemption. The CABs will mature on the date, in the "Maturity Value" (the total principal,

premium, if any, and accreted/compounded interest payable at stated maturity or prior redemption), and will accrete in value at the approximate yield based upon the initial offering price to the public set forth on page -ii- of this Official Statement.

The original principal amount of a CAB plus the initial premium, if any, paid therefor with interest accreting thereon compounded semiannually to February 1 or August 1, as the case may be, next preceding the date of such calculation (or the date of calculation, if such calculation is made on February 1 or August 1), using the yield to maturity stated on page -ii- of the Official Statement, means the "Accreted Value" for the CABs. For any day other than a February 1 or August 1, the "Accreted Value" of a CAB is to be determined by a straight-line interpolation between the values for the applicable semiannual compounding dates (based on 30-day months). For informational purposes, Schedule II appearing herein is a table of Accreted Values for the CABs per \$5,000 Maturity Value. Such table of Accreted Values may not reflect the actual price paid for (or the actual yield to an investor purchasing) the CABs in the secondary market.

Interest on the CIBs is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the CIBs (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 CIBs is payable at maturity, or upon redemption prior to maturity, or upon their presentation and surrender to the Paying Agent/Registrar.

The principal and accreted and compounded interest on the CABs is payable only at stated maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar. The CIBs will be issued only in fully registered form in any integral multiple of \$5,000 principal for any one maturity, and the CABs will be issued in the denomination of \$5,000 of Maturity Value or any integral multiple thereof within a stated 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 or Maturity Value, as appropriate, 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.

Yield on Premium Capital Appreciation Bonds

The yield on the CABs is the approximate yield based on the initial offering price therefor set forth on page -ii- of this Official Statement. Such offering price includes the principal amount of the CABs and the premium, if any, equal to the amount by which such offering price exceeds the principal amount of the CAB. Because of such premium, the approximate offering yield on the CABs is lower than the bond interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis. A table of Accreted Values based on such initial offering price is set forth herein under Schedule II. Such Accreted Value table is provided for informational purposes, and may not reflect prices for the CABs in the secondary market.

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 (together, the "Act"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on October 20, 2020. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Security for Payment

The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without 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 Norton Rose Fulbright US 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 December 17, 2020.

Future Bond Issues

The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Redemption Provisions of the Bonds

The District reserves the right to redeem the CIBs 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 CIBS 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. The CABs are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2028, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) on the date fixed for redemption.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption

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

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

Defeasance

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

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

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

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

Amendments

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

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel

performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issues 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, registered owners 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 CIB 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 CIB 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 principal amount or Maturity Value, as applicable, 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.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After

three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a five member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and four citizen members appointed by the Governor. (See "2019 Texas Legislative Session" for a description of legislation that changed the composition of the SLB). As of August 31, 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, 2016 to \$123,509,204,770 on August 31, 2017 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

The Charter District Bond Guarantee Program

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

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

As of March 20, 2020 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.15%. At 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 Ratings” 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⁾

⁽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⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
2015	3,089	\$63,197,514,047	28	\$ 757,935,000	3,117	\$63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019 ⁽²⁾	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203

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

⁽²⁾ At 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_Grant/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.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

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 exempted or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

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

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$25,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory.

Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport and Goods-In-Transit Exemptions

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

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

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 was 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.

District Application of Tax Code

The District grants an exemption to the market value of residence homesteads of \$25,000; the District has not granted an additional exemption of 20% of the market value of residence homesteads.

The District grants an additional exemption to the market value of the residence homestead to persons 65 years of age or older of \$10,000. Disabled persons are granted an additional exemption of \$10,000 until age 65, after which time only the 65 years of age or older exemption applies.

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

100 percent and unemployable disabled veterans and surviving spouses homestead properties are fully exempt from ad valorem taxation.

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 District's Tax Assessor-Collector collects the District's taxes.

The District does not permit split payments.

The District does permit discounts; 3% if paid in full in October; 2% if paid in full in November, and 1% if paid in full in December.

The District has exempted freeport property and, therefore, does not tax freeport property. On December 15, 2011, the Board adopted a resolution authorizing the continued taxation of goods-in-transit for the 2012 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. 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 the school district’s MCR for the 2020-2021 and subsequent years. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts - Tier Two”).

State Funding for School Districts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth 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 fiscal year, the District was designated as an "excess local revenue" district by the TEA. According based on currently available information from TEA, the District is subject to recapture and, therefore, the District is required to exercise one of the wealth equalization options permitted under applicable State law. The District has notified the TEA that it intends to reduce its wealth per student pursuant to Option 3, an agreement to purchase attendance credits pursuant to Chapter 49, Texas Education Code, as amended (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Revenue in Excess of Entitlement" herein).

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on June 15, 2002 in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

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

For the 2019 tax year, the maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the product of the State Compression Percentage multiplied by \$1.00. For the 2019 tax year, the state compression percentage has been set at 93%.

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In

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

Public Hearing and Voter-Approval Tax Rate

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 BENEFITS, 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, the District has no pension fund expenditures or liabilities, except for portions of salaries that exceed salary limits of TRS. 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 the Financial Statement, "IV. - OTHER INFORMATION - C. Defined Benefit Pension Plan" and "IV. - OTHER INFORMATION - D. Defined Other Postemployment Benefit Plan" in the audited financial statements of the District for the year ended June 30, 2019 as set forth in APPENDIX C hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care) administered by the TRS, which provides coverage for certain persons (and their dependents) who retired under the TRS. See Notes to the Financial Statements, "IV. - OTHER INFORMATION - C. Defined Benefit Pension Plan" in the audited financial statements of the District for the year ended June 30, 2019 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.

INVESTMENT POLICIES

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

Legal Investments

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

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

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

As a school district that qualifies as an “issuer” under Chapter 1371, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in “AA-” or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

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

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
Investment Pools	\$17,063,686	85.00%	Daily liquidity
Depository Bank	<u>2,955,171</u>	<u>15.00%</u>	Daily liquidity
Total	\$20,018,857	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. 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 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), “FEDERAL INCOME TAX TREATMENT OF BONDS,” “CONTINUING DISCLOSURE” (excluding the information under the subcaption “Compliance with Prior Agreements,” as to which no opinion is expressed), “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and “OTHER PERTINENT INFORMATION - Registration and

Qualification of Bonds for Sale” in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

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.

FEDERAL INCOME TAX TREATMENT OF THE BONDS

The foregoing discussion of certain United States federal income tax consequences is provided for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning, and disposing of the Bonds, including the applicability and effect of any state, local, or foreign tax laws, and of any proposed changes in applicable laws.

General

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon the Code, United States Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances (for example, persons subject to alternative minimum tax) or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax-exempt organizations, financial institutions, brokers-dealers, persons who have hedged the risk of owning the Bonds, traders in securities that elect to use a mark-to-market method of accounting, thrifts, regulated investment companies, pension and other employee benefit plans, partnerships and other pass-through entities, certain hybrid entities and owners of interests therein, persons who acquire Bonds in connection with the performance of services, or persons deemed to sell Bonds under the constructive sale provisions of the Code). The discussion below also does not discuss any aspect of state, local, or foreign law or United States federal tax laws other than United States federal income tax law. The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as “capital assets” within the meaning of section 1221 of the Code, and acquire such Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to owners of the Bonds who are United States persons within the meaning of Section 7701(a)(30) of the Code (“United States persons”) and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the IRS with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Payments of Stated Interest on the Bonds

The stated interest paid on the Bonds will be included in the gross income, as defined in section 61 of the Code, of the owner thereof and be subject to United States federal income taxation when received or accrued, depending on the tax accounting method applicable to the owner thereof as ordinary income for federal income tax purposes at the time it is paid or accrued, depending on the tax accounting method applicable to the owner thereof. Subject to certain exceptions, the stated interest on the Bonds will be reported to the IRS. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and taxpayer identification number ("TIN") of the owner. A copy of Form 1099 will be sent to each owner of a Taxable Bond for federal income tax purposes.

Original Issue Discount

If the first price at which a substantial amount of the Bonds of any stated maturity is purchased at original issuance for a purchase price (the "Issue Price") that is less than their stated redemption price at maturity (increased in certain cases by interest accrued but not paid for more than a year) by more than one quarter of one percent times the number of complete years to maturity, the Bonds of such maturity will be treated as being issued with "original issue discount." The amount of the original issue discount will equal the excess of the principal amount payable on such Bonds at maturity over its issue price, and the amount of the original issue discount on the Bonds will be amortized over the life of the Bonds using the "constant yield method" provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the owner of the Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the owner of the Bonds that exceeds actual cash distributions to the owner in a taxable year.

The amount of the original issue discount that accrues on the Bonds each taxable year will be reported annually to the IRS and to the owner. The portion of the original issue discount included in each owner's gross income while the owner holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such owner.

Premium

If an owner purchases a Taxable Bond for an amount that is greater than its stated redemption price at maturity, such owner will be considered to have purchased the Taxable Bond with "amortizable bond premium" equal in amount to such excess. An owner may elect to amortize such premium using a constant yield method over the remaining term of the Taxable Bond and may offset interest otherwise required to be included in respect of the Taxable Bond during any taxable year by the amortized amount of such excess for the taxable year. The bond premium on a Taxable Bond held by an owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Taxable Bond. However, if the Taxable Bond may be optionally redeemed after the owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some bond premium until later in the term of the Taxable Bond. Any election to amortize bond premium applies to all taxable debt instruments held by the owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Defeasance

Persons considering the purchase of a Taxable Bond should be aware that a defeasance of a Taxable Bond by the District could result in the realization of gain or loss by the owner of the Taxable Bond for federal income tax purposes, without any corresponding receipts of monies by the owner. Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange, owner are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (1) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (2) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Bonds as well as gain on the sale of a Taxable Bond.

Disposition of Bonds and Market Discount

An owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Taxable Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the owner's adjusted tax basis in the Bonds. Generally, the owner's adjusted tax basis in the Bonds will be the owner's initial cost, increased by the original issue discount previously included in the owner's income to the date of disposition and decreased by any amortized bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short term, depending on the owner's holding period for the Bonds.

Under current law, a purchaser of Bonds who did not purchase the Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount.” Market discount is the amount by which the price paid for the Bonds by a subsequent purchaser is less than the sum of issue price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Bonds.

Backup Withholding

Under section 3406 of the Code, an owner of the Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Bonds. This withholding applies if such owners of Bonds: (1) fails to furnish the payor such owner’s social security number or other TIN; (2) furnishes the payor an incorrect TIN; (3) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (4) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such owner is not subject to backup withholding. To establish status as an exempt person, an owner will generally be required to provide certification on IRS Form W-9 (or substitute or replacement form).

Backup withholding will not apply, however, with respect to payments made to certain owners of the Bonds, owners of the Bonds should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedures for obtaining such exemption. The backup withholding tax is not an additional tax and taxpayers may use amounts withheld as a credit against their federal income tax liability or may claim a refund as long as they timely provide certain information to the IRS.

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30 percent on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the owner of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30 percent withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (1) the owner provides a statement to the payor certifying, under penalties of perjury, that such owner is not a United States person and providing the name and address of such owner; (2) such interest is treated as not effectively connected with the owner’s United States trade or business; (3) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (4) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (5) such owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (6) such owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business. The treatment described under this section may have been modified by an applicable tax treaty.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code impose a 30 percent withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the United States Treasury to, among other things, undertake to identify accounts held by certain United States persons or United States-owned entities, annually report certain information about such accounts, and withhold 30 percent on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act (“FATCA”) imposes a 30 percent withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial United States owners or the entity furnishes identifying information regarding each substantial United States owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30 percent withholding tax being imposed on payments of interest and principal under the Bonds and sales proceeds of Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of United States source interest (including original issue discount) and will apply to (1) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (2) certain “passthru” payments no earlier than January 1, 2017. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

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 Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

CONTINUING DISCLOSURE

The District in the Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2020/21" and "2021/2022 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to "Authorized But Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds," have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2020.

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

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

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its

assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. Additionally, the Bonds are not obligations the interest of which is excludable from gross income for federal income tax purposes. In the Order, the District has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB.

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

Availability of Information from MSRB

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

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

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and

orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Ratings

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

The rating reflects only the view of such organization at the time such rating was given, 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 the rating company, if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the 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 and may be subject to revision or withdrawal at any time.

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 on the CIBs 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 pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

RBC Capital Markets, LLC ("RBCCM"), has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity

securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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

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

Citigroup Global Markets Inc., an underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Bond, the Underwriters will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements pertaining to the District contained in its Official Statement, and any addenda, supplement, or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of the Bonds, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) except as set forth in this Official Statement, there has been no material adverse change in the financial condition of the District, since June 30, 2019, the date of the last financial statements of the District appearing in the Official Statement.

Verification of Mathematical Computations

Ritz & Associates PA will deliver to the District, on or before the settlement date of the Bonds, its verification report (the "Report") indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, as applicable, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations. Ritz & Associates PA relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Ritz & Associates PA has relied on any information provided to it by the District's retained advisors, consultants and legal counsel.

Forward Looking Statements

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

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

future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Information from External Sources

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

Authorization of the Official Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

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

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

BOERNE INDEPENDENT SCHOOL DISTRICT

/s/

Authorized Official

SCHEDULE I
REFUNDED OBLIGATIONS*

Series	Principal Amount (\$)	Maturities	Interest Rates (%)	Redemption Date and Price
Boerne Independent School District				
Unlimited Tax School Building Bonds,				
Series 2013				
	1,000,000	2-1-2023	5.000	2-1-2022 at 100%
	1,000,000	2-1-2024	5.000	2-1-2022 at 100%
	700,000	2-1-2025	5.000	2-1-2022 at 100%
	610,000	2-1-2026 ⁽¹⁾	5.000	2-1-2022 at 100%
	610,000	2-1-2027 ⁽¹⁾	5.000	2-1-2022 at 100%
	605,000	2-1-2028 ⁽¹⁾	5.000	2-1-2022 at 100%
	650,000	2-1-2029 ⁽¹⁾	5.000	2-1-2022 at 100%
	5,945,000	2-1-2030	5.000	2-1-2022 at 100%
	5,945,000	2-1-2031	5.000	2-1-2022 at 100%
	5,940,000	2-1-2032	5.000	2-1-2022 at 100%
	6,185,000	2-1-2033	5.000	2-1-2022 at 100%
	6,435,000	2-1-2034	5.000	2-1-2022 at 100%
	6,430,000	2-1-2035	5.000	2-1-2022 at 100%
	4,250,000	2-1-2036	5.000	2-1-2022 at 100%
	6,025,000	2-1-2037 ⁽²⁾	5.000	2-1-2022 at 100%
	6,115,000	2-1-2038 ⁽²⁾	5.000	2-1-2022 at 100%
	6,415,000	2-1-2039 ⁽²⁾	5.000	2-1-2022 at 100%
	6,410,000	2-1-2040 ⁽³⁾	5.000	2-1-2022 at 100%
	6,435,000	2-1-2041 ⁽³⁾	5.000	2-1-2022 at 100%
	6,500,000	2-1-2042 ⁽³⁾	5.000	2-1-2022 at 100%
	6,495,000	2-1-2043 ⁽³⁾	5.000	2-1-2022 at 100%

* Preliminary, subject to change.

⁽¹⁾ Term Bond maturing on February 1, 2029.

⁽²⁾ Term Bond maturing on February 1, 2039.

⁽³⁾ Term Bond maturing on February 1, 2043.

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SCHEDULE II

ACCRETED VALUES OF PREMIUM CAPITAL APPRECIATION BONDS

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APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

Valuation Information⁽¹⁾

Total 2020 Appraised Valuation of District	\$10,243,649,528
Less: Exemptions and Exclusions ⁽²⁾	<u>1,842,454,961</u>
Total Taxable Assessed Valuation ⁽³⁾	\$ 8,401,189,567

⁽¹⁾ Kendall Appraisal District, Bexar Appraisal District, and Comal Appraisal District reports of certified values.

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

⁽³⁾ See "APPENDIX A - "TAXATION DATA - 2020 Homestead Exemptions/Deductions Allowed."

Direct Debt Information

Total Bonded Indebtedness Payable from Ad Valorem Taxes: (at 10-1-2020)	
Limited Maintenance Tax	\$ 800,000
Unlimited Tax	<u>309,264,516*</u>
Total Bonded Indebtedness Payable from Ad Valorem Taxes	310,064,516*
Less: Interest & Sinking Fund Cash Balance (at 10-1-2020)	<u>1,109,576</u>
Net Bonded Indebtedness Payable from Ad Valorem Taxes	\$308,954,940*

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

Direct Debt Ratios

Ratio of Total Bonded Debt (\$310,064,516*) to Taxable Assessed Valuation (\$8,401,189,567)	3.70%
Ratio of Total Bonded Debt (\$310,064,516*) to Total Appraised Valuation (\$10,243,649,528)	3.03%
Ratio of Net Bonded Debt (\$308,954,940*) to Taxable Assessed Valuation (\$8,401,189,567)	3.68%
Ratio of Net Bonded Debt (\$308,954,940*) to Total Appraised Valuation (\$10,243,649,528)	3.02%

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

Non-Funded Debt

As of June 30, 2019 the District had no non-funded debt.

Source: District's 2019 Annual Financial Report.

Authorized But Unissued General Obligation Bonds

The District currently has no voter authorized but unissued unlimited ad valorem tax-supported bonds. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

Population and Per Capita Indebtedness

2020 District Population Estimate	48,019
2020 Per Capita Taxable Assessed Valuation (\$8,401,189,567)	\$174,955.53
Per Capita Total Bonded Debt (\$310,064,516*)	\$6,457.12

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

Enrollment and Average Daily Attendance Data

2020/21 Enrollment (at 10-1-2020)	9,578
2020/21 Estimated Average Daily Attendance (at 10-1-2020)	9,138
2020 Taxable Assessed Valuation (\$8,401,189,567) Per Enrollment	\$877,134.01

Area, Valuation and Bonded Debt Data

Area of District in Square Miles	395.52
Area of District in Acres	230,093
Total Direct Bonded Debt (\$310,064,516*) Per Acre	\$1,347.56
2020 Taxable Assessed Valuation (\$8,401,189,567) Per Acre	\$36,512.15
2020 Total Appraised Value (\$10,243,649,528) Per Acre	\$44,519.58

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

**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending August 31 In Each Of The Years 2021 - 2048 Inclusive)***

2021	\$ 7,185,634	
2022	9,562,447	
2023	6,131,237	
2024	5,465,336	
2025	9,450,000	12.22%
-	-	
2026	9,440,000	
2027	9,480,000	
2028	9,815,000	
2029	9,624,520	
2030	7,443,899	27.03%
-	-	
2031	8,076,443	
2032	11,910,000	
2033	12,200,000	
2034	12,355,000	
2035	12,480,000	45.47%
-	-	
2036	11,625,000	
2037	11,370,000	
2038	11,375,000	
2039	11,490,000	
2040	11,780,000	64.11%
-	-	
2041	12,060,000	
2042	12,410,000	
2043	12,805,000	
2044	14,790,000	
2045	15,270,000	85.88%
-	-	
2046	15,530,000	
2047	15,885,000	
2048	<u>12,255,000</u>	100.00%
	\$309,264,517	

* Preliminary, subject to change. Includes only the District's unlimited tax debt, including the Bonds and excluding the Refunded Obligations.

History of District's Outstanding Bond Issues

	<u>Original Amount</u>	<u>Amount Outstanding At 10-1-2020⁽¹⁾</u>
Limited Maintenance Tax		
Limited Maintenance Tax Notes, Series 2015	\$ 1,500,000	\$ 800,000
Unlimited Tax		
School Building and Refunding Bonds, Series 1999	38,597,406	3,904,452
School Building and Refunding Bonds, Series 2002	7,736,757	85,202
School Building Bonds, Series 2013	98,025,000	1,670,000 ⁽²⁾
Refunding Bonds, Series 2014	8,854,992	8,204,992 ⁽²⁾
Refunding Bonds, Series 2015	5,380,000	4,035,000
School Building Bonds, Series 2016	81,545,000	78,770,000
School Building Bonds, Series 2017	81,215,000	80,915,000
Refunding Bonds, Series 2019	43,165,000	40,980,000
Refunding Bonds, Taxable Series 2020 (the "Bonds")	90,699,870	<u>90,699,870</u> ⁽³⁾
Total Debt		\$310,064,516 ⁽²⁾⁽³⁾

⁽¹⁾ Unaudited.

⁽²⁾ Excludes the Refunded Obligations. Preliminary, subject to change.

⁽³⁾ Preliminary, subject to change.

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 were 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:

<u>Political Subdivision</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount Overlapping</u>
	<u>Amount</u>	<u>As Of</u>		
Alamo CCD	\$ 437,790,000	10-01-2020	1.53%	\$ 6,698,187
Bexar County	1,944,900,000	10-01-2020	1.53%	29,756,970
Bexar County Hospital District	932,030,000	10-01-2020	1.53%	14,260,059
Boerne, City of	71,045,000	10-01-2020	100.00%	71,045,000
Comal County	139,835,000	10-01-2020	0.69%	964,862
Fair Oaks Ranch, City of	7,540,000	10-01-2020	95.45%	7,196,930
Kendall County	23,440,000	10-01-2020	84.76%	19,867,744
Kendall County WC & ID #2A	11,910,000	10-01-2020	100.00%	11,910,000
San Antonio, City of	2,101,370,000	10-01-2020	0.08%	<u>1,681,096</u>
Total Estimated Overlapping Debt				\$163,380,848
Boerne ISD	310,064,516 *	10-01-2020	100.00%	<u>310,064,516</u> *
Total Direct and Estimated Overlapping Debt				\$473,445,364
Ratio to 2020 Assessed Valuation (\$8,401,189,567)				5.64%
Per Capita (48,019) Direct and Estimated Overlapping Debt				\$9,859.54

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

Tax Rate Distribution

<u>Tax Year</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Local Maintenance	<u>\$0.938</u> ⁽¹⁾	\$0.970 ⁽¹⁾	\$1.040	\$1.040	\$1.040
Interest & Sinking Fund	<u>0.314</u>	<u>0.314</u>	<u>0.314</u>	<u>0.314</u>	<u>0.276</u>
Total	\$1.252	\$1.284	\$1.354	\$1.354	\$1.316

⁽¹⁾ The decline in the District's Maintenance and Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

TAXATION DATA

Historical Valuations, Tax Rates, and Collection Data

<u>Tax Year</u>	<u>Assessed Valuation *</u>	<u>Tax Rate</u>	<u>% Collections</u>		<u>Year Ending</u>
			<u>Current</u>	<u>Total</u>	
2010	\$3,889,917,950	1.314	97.89%	100.23%	6-30-11
2011	3,897,926,376	1.314	98.23%	100.63%	6-30-12
2012	4,017,398,421	1.294	98.17%	100.34%	6-30-13
2013	4,171,416,708	1.294	98.41%	100.19%	6-30-14
2014	4,406,465,030	1.294	98.38%	100.38%	6-30-15
2015	5,599,270,443	1.294	98.33%	99.89%	6-30-16
2016	5,989,593,782	1.316	98.54%	100.35%	6-30-17
2017	6,263,391,229	1.354	99.13%	100.62%	6-30-18
2018	7,182,544,349	1.354	98.66%	99.80%	6-30-19
2019	7,761,314,782	1.284 ⁽¹⁾	98.62%	100.53%	6-30-20
2020	8,401,189,567	1.252	(In Process of Collection)		6-30-21

* Source: 2010 thru 2019 from District's Audited Financial Statements; 2020 Kendall Appraisal District, Comal Appraisal District, and Bexar Appraisal District.

⁽¹⁾ The decline in the District's Maintenance and Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

Schedule of Delinquent Taxes Receivable (Unaudited) Fiscal Year Ended June 30, 2020

<u>Last Ten Years</u>	<u>Ending Balance</u>
2011 and prior years	\$ 89,851
2012	41,132
2013	65,738
2014	81,537
2015	93,534
2016	108,234
2017	133,851
2018	177,151
2019	323,358
2020	<u>1,445,029</u>
Total	\$2,559,415

Source: The District (unaudited).

Ten Largest Taxpayers

Name	Type of Property	2020 Net Taxable Assessed Valuation	% of Total 2020 Assessed Valuation
SA Ranchland Fair Oaks MF LP	Real Estate	\$ 39,500,000	0.47%
Breit Steadfast MF Fairmark Tx LP	Apartments	34,250,000	0.41%
Mission Pharmacal Co.	Manufacturing	20,601,609	0.25%
Albany Engineered Composites	Manufacturing	16,667,231	0.20%
Zylstra Holdings at Boerne LLC	Real Estate	15,703,900	0.19%
VBM Acquisition LLC	VBM Acquisition LLC	13,262,120	0.16%
LCRA Transmission SRVCS Corp	Utility	13,182,310	0.16%
Boerne Hotel Ltd	Hotel	12,362,670	0.15%
RV Retailer Texas II Real Estate LLC	RV Dealership	11,585,000	0.14%
Ashton San Antonio LLC	Real Estate	<u>11,020,840</u>	<u>0.13%</u>
Total		\$188,135,680	2.22%

Source: Kendall Appraisal District and Bexar Appraisal District.

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	\$ 6,889,012,080	67.25%	\$6,317,146,377	66.48%	\$5,765,682,160	65.77%
Multi-Family Residential	173,467,901	1.69%	186,949,961	1.97%	172,428,501	1.97%
Vacant Lots	248,608,216	2.43%	235,976,190	2.48%	234,071,099	2.67%
Qualified Open Space and Improvements	1,167,679,439	11.41%	1,117,501,788	11.76%	1,065,856,135	12.16%
Rural Land (Non-qualified)	515,357,849	5.03%	488,247,814	5.14%	472,246,882	5.39%
Commercial Real	696,010,563	6.79%	646,189,249	6.80%	603,784,736	6.89%
Industrial Real	26,969,360	0.26%	26,846,410	0.28%	25,793,870	0.29%
Oil, Gas, Minerals	-0-	-0-	-0-	0.00%	-0-	0.00%
Utilities	51,741,318	0.51%	45,581,125	0.48%	48,037,706	0.55%
Commercial Personal	193,233,837	1.89%	173,085,891	1.82%	149,603,967	1.71%
Industrial Personal	68,436,688	0.67%	68,815,619	0.72%	64,118,120	0.73%
Mobile Homes	6,547,340	0.06%	6,548,240	0.07%	6,354,290	0.07%
Residential Inventory	134,624,197	1.31%	126,156,457	1.33%	102,328,330	1.17%
Special Inventory	<u>71,955,740</u>	<u>0.70%</u>	<u>63,416,030</u>	<u>0.67%</u>	<u>55,729,030</u>	<u>0.64%</u>
Total Appraised Valuation	\$10,243,644,528	100.00%	\$9,502,461,151	100.00%	\$8,766,034,826	100.00%
Less Exemptions & Exclusions	<u>1,842,454,961</u>		<u>1,740,993,743</u>		<u>1,583,490,477</u>	
Net Taxable Assessed Valuation	<u>\$8,401,189,567</u>		<u>\$7,761,467,408</u>		<u>\$7,182,544,349</u>	

Source: Kendall County Appraisal District, Bexar Appraisal District, and Comal Appraisal District reports of certified values.

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2020/2021

Interest & Sinking Fund Balance at 6-30-2020.....	\$ 7,544,283
Estimated Income from \$0.3140 I&S Tax Rate @ 95% Collected Using 2020 Taxable Assessed Valuation of \$8,401,189,567	25,060,748
Estimated Other Income	<u>65,000</u>
Estimated Total Funds Available	32,672,721
2020/21 Debt Service Requirement	<u>21,266,926</u>
Ending Interest & Sinking Fund Balance	\$11,405,795

**CONSOLIDATED DEBT SERVICE REQUIREMENTS
INCLUDING THE BONDS AT ASSUMED RATES***

FISCAL YEAR June 30	CURRENTLY OUTSTANDING DEBT SERVICE REQUIREMENTS	LESS REFUNDED OBLIGATIONS DEBT SERVICE REQUIREMENTS	PLUS: THE BONDS				GRAND TOTAL ALL DEBT SERVICE REQUIREMENTS
			PRINCIPAL DUE 8/1	INTEREST DUE 2/1	INTEREST DUE 8/1	TOTAL	
2021	\$ 23,219,154.00	\$ 2,267,500.00			\$ 315,272.77	315,272.77	21,266,926.77
2022	24,024,139.00	4,535,000.00	\$ 1,375,000.00	\$ 746,698.68	746,698.68	2,868,397.35	22,357,536.35
2023	20,320,281.50	5,535,000.00	2,375,000.00	745,124.30	745,124.30	3,865,248.60	18,650,530.10
2024	19,586,135.00	5,485,000.00	2,335,000.00	740,979.93	740,979.93	3,816,959.85	17,918,094.85
2025	20,532,337.50	5,135,000.00	1,995,000.00	735,072.38	735,072.38	3,465,144.75	18,862,482.25
2026	20,162,442.50	5,010,000.00	1,885,000.00	728,458.95	728,458.95	3,341,917.90	18,494,360.40
2027	19,837,945.00	4,979,500.00	1,870,000.00	720,372.30	720,372.30	3,310,744.60	18,169,189.60
2028	19,792,750.00	4,944,000.00	1,855,000.00	710,536.10	710,536.10	3,276,072.20	18,124,822.20
2029	19,759,225.00	4,958,750.00	1,895,000.00	699,350.45	699,350.45	3,293,700.90	18,094,175.90
2030	21,088,775.00	10,221,250.00	3,313,426.40	686,436.03	4,553,009.63	8,552,872.06	19,420,397.06
2031	21,086,725.00	9,924,000.00	2,921,443.20	686,436.03	4,649,992.83	8,257,872.06	19,420,597.06
2032	20,803,065.00	9,621,750.00	6,580,000.00	686,436.03	686,436.03	7,952,872.05	19,134,187.05
2033	20,799,900.00	9,569,750.00	6,635,000.00	633,368.33	633,368.33	7,901,736.65	19,131,886.65
2034	20,644,420.00	9,510,500.00	6,690,000.00	577,004.00	577,004.00	7,844,008.00	18,977,928.00
2035	20,431,200.00	9,183,750.00	6,480,000.00	517,295.75	517,295.75	7,514,591.50	18,762,041.50
2036	19,218,850.00	6,682,250.00	4,100,000.00	456,675.35	456,675.35	5,013,350.70	17,549,950.70
2037	18,588,900.00	8,244,750.00	5,745,000.00	416,556.85	416,556.85	6,578,113.70	16,922,263.70
2038	18,252,650.00	8,033,500.00	5,650,000.00	357,871.68	357,871.68	6,365,743.35	16,584,893.35
2039	18,017,900.00	8,027,750.00	5,765,000.00	298,659.68	298,659.68	6,362,319.35	16,352,469.35
2040	17,932,900.00	7,702,000.00	5,560,000.00	237,291.25	237,291.25	6,034,582.50	16,265,482.50
2041	17,813,500.00	7,406,500.00	5,385,000.00	176,270.25	176,270.25	5,737,540.50	16,144,540.50
2042	17,740,200.00	7,149,750.00	5,250,000.00	116,442.90	116,442.90	5,482,885.80	16,073,335.80
2043	17,719,300.00	6,819,750.00	5,040,000.00	57,380.40	57,380.40	5,154,760.80	16,054,310.80
2044	17,599,200.00						17,599,200.00
2045	17,522,600.00						17,522,600.00
2046	17,206,800.00						17,206,800.00
2047	16,975,600.00						16,975,600.00
2048	12,745,200.00						12,745,200.00
	<u>\$539,422,094.50</u>	<u>\$160,947,000.00</u>	<u>\$90,699,869.60</u>	<u>\$11,730,717.58</u>	<u>\$19,876,120.76</u>	<u>\$122,306,707.93</u>	<u>\$500,781,802.43</u>

* Preliminary, subject to change.

2021/2022 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX*

Estimated Interest & Sinking Fund Balance at 6-30-2021.....	\$11,405,795
Estimated Income from \$0.3140 I&S Tax Rate @ 95% Collected Using 2021 Estimated Taxable Assessed Valuation of \$8,737,237,150	26,063,178
Estimated Other Income	<u>65,000</u>
Total Estimated Funds Available	37,533,973
2021/22 Debt Service Requirement	<u>22,357,536</u>
Estimated Interest & Sinking Fund Balance at 6-30-2022	\$15,176,437

* Preliminary, subject to change.

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 and ongoing litigation see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement.

	Year Ended 6/30				
	2020*	2019	2018	2017	2016
Local Sources	\$ 98,695,584	\$ 98,870,987	\$ 92,051,189	\$ 83,747,139	\$ 76,100,028
State Sources	9,644,262	12,377,814	9,609,250	8,889,146	7,895,676
Federal Sources	<u>3,507,971</u>	<u>4,054,445</u>	<u>3,517,160</u>	<u>2,878,765</u>	<u>2,929,019</u>
Total all Revenue	<u>111,847,817</u>	<u>115,303,246</u>	<u>105,177,599</u>	<u>95,515,050</u>	<u>86,924,723</u>
EXPENDITURES					
Instruction	54,437,390	47,269,805	42,025,185	41,146,621	36,873,668
Instruction Related	6,262,553	5,212,413	6,352,588	4,132,789	5,735,947
Pupil Services	13,439,981	12,667,522	11,901,595	11,670,323	10,675,141
General Administration	3,256,730	2,362,868	2,230,089	2,058,582	2,108,670
Plant Maintenance & Operation	9,517,741	7,982,916	7,788,002	7,221,059	7,153,319
Community Services	40,726	38,020	68,279	78,238	160,156
Debt Service ⁽¹⁾	70,799,891	22,025,467	20,852,989	17,243,713	15,798,322
Capital Outlay	15,590,043	53,494,235	61,590,990	36,010,427	31,236,865
Data Processing	3,343,250	3,896,403	--	--	--
Contracted Instructional Services					
Between Public Schools	18,500	10,569,906	9,377,461	7,675,790	6,377,347
Other Intergovernmental Charges	<u>873,655</u>	<u>726,318</u>	<u>686,313</u>	<u>726,660</u>	<u>704,007</u>
Total all Expenditures	177,580,460	166,245,873	167,866,500	133,409,581	118,705,540
Total Other Resources and (Uses)	<u>48,807,806</u>	<u>13,855</u>	<u>88,734,508</u>	<u>88,407,082</u>	<u>-0-</u>
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	(16,844,837)	(50,928,772)	26,045,607	50,512,551	(31,780,817)
Fund Balance Beginning of Year	51,718,417	102,647,189	76,601,582	26,089,031	60,655,482
Prior Period Adjustment	--	--	--	--	(2,785,635)
Fund Balance End of Year	<u>\$34,873,580</u>	<u>\$51,718,417</u>	<u>\$102,647,189</u>	<u>\$76,601,582</u>	<u>\$26,089,029</u>
General Fund Balance	\$19,746,632	\$19,361,894	\$16,796,012	\$15,555,522	\$13,058,682

* Unaudited.

⁽¹⁾ In fiscal 2020 the debt service reflects a refunding in the original principal amount of \$43,165,000.

	Year Ended 6/30				
	2020	2019	2018	2017	2016
Assessed Valuation	\$8,401,189,567	\$7,182,544,349	\$6,263,391,229	\$5,989,593,782	\$5,599,270,443
Total Tax Rate	\$1.25	\$1.35	\$1.35	\$1.32	\$1.29
Percent of Debt Service to Total Expenditures	39.65%*	13.25%	12.42%	12.93%	13.31%

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

* Unaudited

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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 District. Information in this Appendix has been obtained from the sources noted. They are believed to be reliable, although no investigation has been made to verify the accuracy of such information. Much of this information was obtained from the Boerne Independent School District, Texas Almanac, Greater Boerne Area Chamber of Commerce, and the Boerne Independent School District's Texas Municipal Report. The following information is qualified by the impact from the effects of the COVID-19 pandemic. Within the body of the Official Statement, under caption "INFECTIOUS DISEASE OUTBREAK - COVID-19", the District described this event, as well as its initial impact and possible effects. The District has not attempted to update the descriptions included in this APPENDIX B to account for the effects of COVID-19, as the specific results of this event are evolving and their extent unknown; rather, the District makes reference to the aforementioned section of the body of the Official Statement and directs the reader thereto for a general discussion of the COVID-19 event as of the date of the Official Statement.

General

The District consists of 359.52 square miles or 230,093 acres in Kendall, Bexar and Comal Counties. The majority of the District lies within Kendall County and includes the City of Boerne, Texas ("Boerne"), the county seat. Just 14 miles north of San Antonio's city limits, Boerne is nestled in the scenic Texas Hill Country at the crossroads of Interstate Highway 10 and State Highway 46.

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.

Educational Opportunities and Accreditation

Boerne ISD is focused on preparing all students for the world they will face following graduation. In a community where public education is a top priority, the District works hand-in-hand with parents, business leaders and community supporters to help students achieve their full potential and chart a course for their future that draws from the cumulative experiences of their Boerne ISD education.

The District has worked closely with its community to define the academic proficiencies and personal qualities each Boerne ISD learner should possess. Each student should be academically prepared, think critically and inquisitively, be an active, effective communicator, be an engaged member of the community and hold a deep sense of self-awareness. Boerne ISD is fully accredited by the Texas Education Agency. The District focuses on intensive instruction in basic academic skills with a variety of additional programs designed to supplement the core curriculum. A wide array of Career and Technical Education courses help equip students with marketable workforce skills. Across the spectrum of educational offerings, there are numerous opportunities for students to develop intellectual, social, physical, economic, and occupational competencies.

The District is recognized consistently at state and national levels for academic and extracurricular successes. US News & World Report, Newsweek and the Niche report all have sited the District and its various schools as being among the best in Texas and the United States.

Boerne ISD students consistently perform well above regional and state in performance testing, according to data from the Texas Education Agency. Ninety percent of BISSD students met the standard for STAAR testing, according to the most recent data, versus 78 percent statewide. The District's bi-lingual education program merits similar results for its students when compared to regional and state averages.

With a four-year graduation rate consistently tracking above 98 percent, the District outpaces the statewide rate of 90 percent. In terms of post-secondary readiness, Boerne ISD students score well above state and national averages on SAT and ACT college placement exams. The District supports an active program for College Board Advanced Placement exams, where record numbers of students achieve college credit for qualified high school academic achievement.

Students are challenged by a comprehensive University Interscholastic League program that includes academics, athletics, band, drama, music, and literary competitions. More than 80 percent of Boerne ISD high school students participate in at least one school-sponsored extracurricular activity. A few of these organizations include FFA, FCCLA, Air Force Junior ROTC, Technology Students Association, Honor Choir, Student Council, Academic Decathlon, and many more.

Boerne ISD students are also involved in community service initiatives that include the areas of environmental issues, humanitarian support, and drug abuse prevention activities. There is something for almost every interest as the District and community work together to keep students involved and motivated.

Budget and Personnel

The budget for the 2020-2021 school year is \$89,275,404. The sources of revenue are as follows: 85% (local), 15% (state), 0% (federal). 1,250 individuals comprise the District's professional and support staff. The District's payroll budget total is \$74,894,988 or 84%.

Scholastic Membership and Average Daily Attendance

Boerne Independent School District enjoys an excellent academic reputation which makes it very desirable to people relocating from other places. Because the District is located on Interstate Highway 10 near major employers such as USAA, University of Texas at San Antonio and South Texas Medical Center, the District attracts a substantial number of professional persons and their families. In addition, many people commute to industrial and civil service jobs in San Antonio. Following are scholastic membership and average daily attendance figures for the past ten years.

<u>School Year</u>	<u>Membership</u>	<u>Average Daily Attendance</u>	<u>Percent ADA Increase</u>
2009-10	6,351	6,099	+1.65%
2010-11	6,575	6,349	+ 4.10%
2011-12	6,733	6,500	+2.38%
2012-13	7,050	6,750	+3.84%
2013-14	7,205	6,898	+2.19%
2014-15	7,472	7,186	+4.18%
2015-16	7,867	7,610	+5.90%
2016-17	8,330	7,943	+4.38%
2017-18	8,688	8,271	+4.13%
2018-19	9,170	8,690	+5.07%
2019-20*	9,579	9,109	+4.82%
2020-21*	9,579	9,138	+0.30%

* As of 9-18-2020.

Present Facilities

<u>School Facility</u>	<u>Grade Span</u>	<u>Present Capacity</u>	<u>Membership at 10-1-2020</u>
Cibolo Creek Elementary	PreK - 5th	750	427
Curington Elementary	PreK - 5th	800	587
Fabra Elementary	PreK - 5th	800	572
Fair Oaks Elementary	PreK - 5th	850	640
Herff Elementary	PreK - 5th	800	464
Kendall Elementary	PreK - 5th	750	700
Van Raub Elementary	PreK - 5th	800	736
Boerne Middle School North	6th - 8th	875	807
Boerne Middle School South	6th - 8th	1,250	829
Mark T. Voss Middle School	6th - 8th	1,200	699
Boerne High School	9th -12th	1,594	1,230
Boerne Champion High School	9th -12th	1,946	<u>1,887</u>
TOTAL			9,578

Educational Programs

In addition to a well-rounded core curriculum, the District offers students opportunities to be challenged beyond the basics and to pursue individualized interests. While small enough to enable each student to be recognized individually, the District is large enough to offer a wide range of excellent programs. A few special programs are:

- At Risk services on all campuses
- Content mastery program for Special Education students
- Counseling, guidance, and testing services at all campuses
- Numerous anti-drug education and prevention programs
- English-As-A-Second Language program

- Dual Language Two-way Program PK-5
- Food Service program for all campuses
- Foreign language instruction beginning at grade 6
- Full day Pre-Kindergarten and Kindergarten
- Health services for all campuses
- GT, Honors, and Advanced Placement classes
- Middle and High School Athletic, Band, Choir, and Orchestra Programs
- Numerous special interest clubs
- Accelerated Reading and Math programs
- Support teachers for elementary art, PE, and music
- Theater Arts
- Career and Technology Education – Agriculture, Architecture, Arts, Business, Education, Health Science, Hospitality, Human Services, Information Technology, Manufacturing, STEM, and Transportation
- Project Lead the Way & Incubator programs to empower students for in-demand knowledge in CTE courses, Boerne Outdoor Academy
- Dual Credit courses from Northwest Vista College and Angelo State University

Employee Retirement, Teacher Retirement System of Texas

The District has no financial responsibility for the Teacher Retirement System of Texas, with employees contributing 7.7% of their annual compensation and the State of Texas contributing 6.00%.

Source: The District.

AREA ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

Location

Kendall County, Texas (the "County"), organized in 1862, contains 662.9 square miles and is located in south central Texas.

The City of Boerne, Texas (the "City") is the county seat and principal commercial center of the County. The City is located approximately 30 miles north of downtown San Antonio on Interstate Highway 10 (U.S. Highway 87). The other incorporated city located within the County is Comfort (2010 census population 2,363; 2018 population estimate 3,590).

Population

<u>Census Report</u>	<u>Kendall County</u>	<u>City of Boerne</u>
2020 Est.	48,955	20,184
2010	33,410	10,684
2000	23,743	6,178
1990	14,589	4,274
1980	10,635	3,229

Source: U.S. Census Bureau

Economy

The area economy is diversified by light manufacturing, agribusiness, tourism, and outdoor recreation. Principal manufacturing industries include aerospace, oil field hydraulic motors, medical devices and pharmaceuticals, hunting equipment, food processing and aquatic filtration systems. Approximately 10% of the area workforce support these manufacturing businesses. Agricultural and ranching businesses in the area include cattle, sheep, goats, hay and other grains. Tourism is a primary economic generator in the City due to the close proximity to San Antonio, the nation's 7th largest city, and the availability of hunting, fishing, shopping, sports and recreation activities.

A new addition to the City's economic landscape is a twenty-four-hour emergency facility, the Boerne Methodist Emergency Center, and medical professional building. On the horizon is the construction of a new higher education campus within 5 miles of the City estimated to provide 200-300 additional jobs for Boerne area residents. Construction of commercial buildings and residential units, single and multifamily, continues to bring new residents to the City. Being only 30 miles from the San Antonio metropolitan area affords many Boerne residents the opportunity to work at major businesses such as the nationally recognized South Texas Medical Center and related medical research facilities, financial and insurance companies such as USAA, and local and federal government agencies.

The City approved economic development incentives to bring a Buc-ee's Family Travel Center (the "Center") to the City. The Center is projected to be a \$40 million development near Interstate 10 and U.S. Business 87/South Main Street. The Center is expected to open in 2020 and is forecasted to create 170 jobs.

Major Employers in the Greater Boerne Area

<u>Name</u>	<u>Type of Property</u>	<u>Employment</u>
Boerne Independent School District	Public School	997
H E Butt Grocery Store	Grocery Store	347
Kendall County	Public Entity	237
City of Boerne	Public Entity	233
Albany Engineered Composites	Manufacturing	238
Mission Pharmacal	Manufacturing	249
WalMart Stores	Discount Store	225
Toyota of Boerne	Automobile Sales	201
The Home Depot	Retail Store	134
Mercedes Benz of Boerne	Automobile Sales	117

Source: Boerne Kendall County Economic Development Corporation.

Employment and Wages by Industry - Kendall County

	Number of Employees				
	<u>1st Quarter 2020</u>	<u>4th Quarter 2019</u>	<u>4th Quarter 2018</u>	<u>4th Quarter 2017</u>	<u>4th Quarter 2016</u>
Natural Resources and Mining	259	270	174	446	253
Construction	2,157	2,315	2,051	1,830	1,703
Manufacturing	1,090	1,134	1,064	970	926
Trade, Transportation and Utilities	3,781	3,849	3,735	3,575	3,499
Information	102	108	123	123	123
Financial Activities	952	1,072	1,182	1,093	957
Professional and Business Services	1,625	1,766	1,767	1,592	1,575
Education and Health Services	2,223	2,275	2,054	1,941	1,701
Leisure and Hospitality	2,087	2,116	1,849	1,918	1,802
Other Services	641	656	627	641	12
Non-classifiable	27	15	12	13	13
State Government	48	47	49	41	45
Local Government	2,182	2,195	1,848	1,669	1,670
Federal Government	125	119	88	63	60
Total Employment	17,299	17,938	16,623	15,915	14,838
Total Wages	\$215,584,171	\$238,482,814	\$219,240,632	\$210,507,345	\$187,538,914

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

Labor Force Statistics - Kendall County

<u>Annual Average</u>	<u>August</u>	<u>Annual Average</u>			
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Civilian Labor Force	22,314	22,132	21,497	21,117	19,565
Total Employed	<u>21,368</u>	<u>21,533</u>	<u>20,863</u>	<u>20,467</u>	<u>18,934</u>
Total Unemployed	946	599	628	650	631
% Unemployed	4.2%	2.7%	2.9%	3.1%	3.2%
% Unemployed (Texas)	7.0%	3.5%	3.9%	4.3%	4.6%
% Unemployed (United States)	8.5%	3.7%	3.9%	4.4%	4.9%

Source: US Department of Labor - Bureau of Labor Statistics

Transportation

Interstate Highway 10 runs through Boerne, carrying heavy traffic from San Antonio to points east to Houston, and points west to El Paso. State Highway 46 runs east to west connecting Boerne with Bandera and New Braunfels. Other adequate state and county roads give access to the City and the surrounding area. San Antonio International Airport is about 35 miles from Boerne on interstate routes. In addition, an airport with a 3400-foot hard surface strip, hangers, fuel, maintenance, storage, instruction and rental facilities is located five miles southwest of Boerne.

Agriculture

Agriculture contributes an important source of income to the area. The *Texas Almanac* reports that most income is derived from cattle, sheep, Angora goats, swine, and poultry; some wheat, oats, hay, and other grains.

Educational Facilities

In addition to public schools afforded within the County, higher educational facilities located nearby include The University of Texas at San Antonio, located just off Interstate Highway 10 on Loop 1604 approximately 17 miles from Boerne with an enrollment of almost 30,000 students making it the third largest university in the University of Texas system. Other colleges located nearby are San Antonio College, St. Philips College, Northwest Vista College, University of Incarnate Word, Trinity University, Palo Alto College, all in San Antonio, and Schreiner University in Kerrville, 20 miles northwest of Boerne.

Recreation

Boerne has 11 public parks, a public swimming pool, and a community center. Other facilities include softball and soccer fields, 8 lighted tennis courts, and general recreation areas in the Boerne City Park. Boerne Lake supports fishing, sail boating and lakeside parks. Guadalupe River State Park, located 12 miles east of Boerne, provides for canoeing, tube floating and other whitewater sports. Cascade Caverns, 5 miles southeast of Boerne, offers camp sites and cave visits.

Six Flags Fiesta Texas Theme Park opened in March 1992. The 200-acre park, located in San Antonio off Loop 1604 and Interstate Highway 10 approximately 17 miles south of Boerne, highlights Texas culture and music.

Community Service

The newly constructed Boerne Methodist Emergency Center is a 24/7 freestanding, full service emergency center with 15 treatment rooms. Also, there are plans for Boerne Methodist Hospital, a 50-bed hospital with continued growth up to a 150-bed hospital, to be built next to the Emergency Center.

The South Texas Medical Center is located about 30 miles from Boerne on Fredericksburg Road just off Interstate Highway 10. In addition to numerous clinics and other facilities, major hospitals include University Hospital, Southwest Methodist Hospital, St. Luke's Lutheran Hospital, Audie Murphy Veterans Hospital, and the University of Texas Health Science Center, including its medical, dental and nursing schools. Hotel and motel facilities are available to the Boerne area. Over 400 total hotel/motel rooms are available. Additionally, others are easily accessible in nearby San Antonio. Boerne has a library, radio station and two weekly newspapers. A San Antonio newspaper, numerous radio stations, five commercial television stations and cable television serve the Boerne area. Churches representing most religious denominations are available in the Boerne area. Those not represented generally are available in nearby San Antonio. Annual celebrations include Kendall County Fair and Berges Fest (Hill Country Festival).

Other Growth Indices

Year	City of Boerne, Texas Utility Connections			
	Electric	Water	Gas	Sewer
2010	4,727	4,500	1,328	4,313
2011	4,807	4,612	1,386	4,403
2012	4,909	4,780	1,440	4,548
2013	4,984	4,947	1,508	4,696
2014	5,074	5,136	1,587	4,862
2015	5,202	5,390	1,587	5,056
2016	5,301	5,638	1,867	5,302
2017	5,394	5,943	2,088	5,465
2018	5,498	6,337	2,376	5,797
2019				
2020				

Source: City of Boerne Finance Office.

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APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Boerne 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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**BOERNE INDEPENDENT
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2019

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Introductory Section

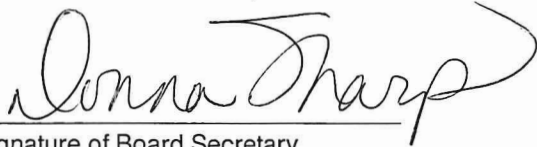
CERTIFICATE OF BOARD

Boerne Independent School District
Name of School District

Kendall
County

130-901
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 18th day of November, 2019.



Signature of Board Secretary



Signature of Board President

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

Financial Section



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Boerne Independent School District:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the 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, budgetary comparison information, schedule of the District's proportionate share of the net pension and other postemployment benefits liability, and schedules of District contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts 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 financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, other supplemental information, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators 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 November 18, 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 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
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Management's Discussion & Analysis (MD&A)

BOERNE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

This discussion and analysis of the Boerne Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2019. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at June 30, 2019 was \$847,072.
- For the fiscal year ended June 30, 2019, the District's general fund reported a total fund balance of \$19,360,756, of which \$306,551 was nonspendable, \$677,151 was committed, and \$18,377,054 was unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$51,718,417.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic 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.
- The *proprietary fund* statements provide information about services provided to parties inside the District. The proprietary funds include the internal service fund (the District's insurance fund).
- *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 fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL 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 District's assets and liabilities. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide statements report the District's net position and how it has changed. Net position is the difference between the District's assets and liabilities and 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 non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

BOERNE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

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 simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

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 at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – These funds include the internal service fund. The District's workers' compensation and unemployment fund activity is reported in the internal service fund and is shown in a separate statement of net position and statement of changes in net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. 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. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

BOERNE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$847,072 at June 30, 2019. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended June 30, 2019. Revenues for the District increased significantly in operating grants and contributions due to prior year negative revenues related to non-employer contributing entity (NECE) on-behalf accruals for the other postemployment benefits (OPEB) plan. Property tax revenues increased due to the increase in assessed value of properties within the District. There were significant increases in instruction and curriculum and staff development expenses due to prior year negative expenses related to the NECE on-behalf accruals for the OPEB plan and the increases in net pension/OPEB liabilities in the current year. *Table 1* indicates the overall condition of the District improved. The District's current assets decreased and capital assets increased related to the purchase of capital assets from the prior year bond issue. The District's long-term liabilities increased primarily due to the increases in the District's net pension and OPEB liabilities.

Table 1
Net Position

Description	Governmental Activities		Total Change 2019-2018
	2019	2018	
Current assets	\$ 71,039,442	\$ 120,826,252	\$ (49,786,810)
Capital assets	349,430,444	301,122,126	48,308,318
Total Assets	420,469,886	421,948,378	(1,478,492)
Deferred charge on refunding	1,633,215	1,837,365	(204,150)
Deferred outflows related to pensions	11,566,933	4,700,358	6,866,575
Deferred outflows related to OPEB	4,104,592	332,506	3,772,086
Total Deferred Outflows of Resources	17,304,740	6,870,229	10,434,511
Current liabilities	22,202,721	21,576,280	626,441
Long-term liabilities	404,495,288	397,974,110	6,521,178
Total Liabilities	426,698,009	419,550,390	7,147,619
Deferred inflows related to pensions	1,206,254	1,928,261	(722,007)
Deferred inflows related to OPEB	9,023,291	9,813,302	(790,011)
Total Deferred Inflows of Resources	10,229,545	11,741,563	(1,512,018)
Net Position:			
Net investment in capital assets	21,018,070	18,437,759	2,580,311
Restricted for:			
State and federal programs	776,733	639,037	137,696
Debt service	6,035,641	6,275,417	(239,776)
Other restrictions of fund balance	1,640,884	1,406,281	234,603
Unrestricted	(28,624,256)	(29,231,840)	607,584
Total Net Position	\$ 847,072	\$ (2,473,346)	\$ 3,320,418

BOERNE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Table 2
Changes in Net Position

	Governmental Activities		Total Change 2019-2018
	2019	2018	
Revenues			
Program revenues:			
Charges for services	\$ 2,895,384	\$ 3,884,811	\$ (989,427)
Operating grants and contributions	10,362,199	(5,800,868)	16,163,067
General revenues:			
Property taxes	91,745,004	85,421,125	6,323,879
Investment earnings	2,457,470	2,022,390	435,080
Grants and contributions not restricted to specific programs	8,308,593	5,034,158	3,274,435
Miscellaneous	1,806,724	1,269,801	536,923
Total Revenue	117,575,374	91,831,417	25,743,957
Expenses			
Instruction	51,419,282	31,081,951	20,337,331
Instructional resources and media services	1,021,112	664,834	356,278
Curriculum and staff development	2,489,056	1,294,502	1,194,554
Instructional leadership	894,011	468,266	425,745
School leadership	5,306,579	2,659,945	2,646,634
Guidance, counseling, and evaluation services	3,753,501	1,754,474	1,999,027
Health services	966,611	461,512	505,099
Student (pupil) transportation	2,641,926	2,145,076	496,850
Food services	2,732,226	1,969,754	762,472
Cocurricular/extracurricular activities	3,700,698	3,419,309	281,389
General administration	2,720,077	1,686,850	1,033,227
Plant maintenance and operations	8,143,551	6,747,686	1,395,865
Security and monitoring	690,820	473,564	217,256
Data processing services	2,388,479	1,601,698	786,781
Community services	46,365	61,498	(15,133)
Interest on long-term debt	14,044,438	14,524,854	(480,416)
Bond issuance costs and fees	-	215,158	(215,158)
Contracted instructional services between state and others	10,554,906	9,377,461	1,177,445
Payments related to shared services arrangements	15,000	15,000	-
Other intergovernmental charges	726,318	671,313	55,005
Total Expenses	114,254,956	81,294,705	32,960,251
Change in Net Position	3,320,418	10,536,712	(7,216,294)
Beginning net position	(2,473,346)	(13,010,058)	10,536,712
Ending Net Position	\$ 847,072	\$ (2,473,346)	\$ 3,320,418

BOERNE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending June 30, 2019, the District's governmental funds reported a combined fund balance of \$51,718,417. This compares to a combined fund balance of 102,647,189 at June 30, 2018. Fund balance primarily declined as a result of the expenditure of bond proceeds received in 2018. The revenues increased mainly due to an increase in assessed values of properties and an increase in the State's available school fund allotments. The expenditures increased due to an increase in instruction costs, curriculum and staff development, data processing, and contracted instructional services between public schools. The debt service fund's fund balance decreased mainly due to debt service payments in excess of property tax payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended June 30, 2019, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's budgeted revenues exceeded actual revenues by \$1,233,460 and the budgeted expenditures exceeded actual expenditures by \$1,315,429.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended June 30, 2019, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At June 30, 2019, the District had a total of \$349,430,444 invested in capital assets such as land, buildings, and District equipment, net of depreciation. This total includes \$55,920,050 invested during the fiscal year ended June 30, 2019.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had \$321,787,405 in general obligation bonds and notes outstanding versus \$328,204,650 last year.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND TAX RATES

Total appraised market value of the District for the 2019-2020 fiscal year (2019 tax year) is \$10.3 billion which is an eight percent increase from the preceding year. Total taxable property values (including "frozen" values) used for the 2019-2020 budget preparation increased eight percent from the preceding year.

The Board set the tax rate for the 2019-2020 school year at the September Board meeting. The tax rates were approved with a decrease from prior year. The tax rate of debt service is \$0.314 and maintenance and operation is \$0.97 for a total tax rate of \$1.284.

The original 2019-2020 General Operating Fund budget is \$80 million, a decrease of two percent. Employees received a four percent pay increase. An additional 96 staff positions were added to the budget. 86th Legislatures' passage of House Bill 3 removed the District from the obligation of Chapter 41 recapture payments, returning the \$10.5 million obligation to the taxpayers and District.

The District's 2019-2020 estimated average membership is 9,208, an increase of 4.9 percent. The average daily attendance rate is 96 percent.

Voters approved a \$175 million bond issue in May 2016 by 73 percent. In an effort to keep the tax rate as low as possible, the District split the bond issue into two sales. In August 2016, the District sold \$87.5 million of bonds with a true interest cost rate of 3.117 percent. The second bond sale was held in August 2017 with a true interest cost rate of 3.641 percent. The District communicated to the stakeholders of Boerne and Fair Oaks community that we would need six cents on the interest and

BOERNE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

sinking tax rate to fund the \$175 million bond. The Board upheld the commitment and passed a six cent tax rate increase over a two-year period.

The approved bond funded the construction of the sixth and seventh elementary campus and the third middle school campus. Van Raub Elementary opened in August 2018, Herff Elementary opened in August 2019, and Tyler M. Voss Middle School opened in August 2019.

The District remains aware of its dependence on local taxation to support all phases of its operations. The District is committed to providing the best possible education to every student, using the resources made available to it by State law and local taxpayer support.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Boerne Independent School District's business office at 235 Johns Road, Boerne, Texas 78006 or by calling (830) 357-2000.

Basic Financial Statements

BOERNE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2019

(Except for the discretely presented component unit for which the date is December 31, 2018)

Data Control Codes	1 Primary Governmental Activities	4 Component Unit Boerne Education Foundation	
ASSETS:			
1110	Cash and Cash Equivalents	\$ 2,653,020	\$ 218,393
1120	Current Investments	61,946,921	1,217,570
1220	Property Taxes Receivable	2,348,672	--
1230	Allowance for Uncollectible Taxes	(399,547)	--
1240	Due from Other Governments	3,140,569	--
1267	Due from Fiduciary	965,884	--
1290	Other Receivables (Net)	5,733	--
1300	Inventories	60,173	--
1410	Prepaid Items	318,017	--
Capital Assets:			
1510	Land	20,184,684	--
1520	Buildings and Improvements, Net	218,624,884	--
1530	Furniture and Equipment, Net	7,014,548	--
1580	Construction in Progress	93,782,936	--
1590	Infrastructure, Net	9,823,392	--
1000	Total Assets	420,469,886	1,435,963
DEFERRED OUTFLOWS OF RESOURCES:			
1700	Deferred Charges on Refunding	1,633,215	--
1705	Deferred Outflows Related to Pensions	11,566,933	--
1706	Deferred Outflows Related to OPEB	4,104,592	--
1700	Total Deferred Outflows of Resources	17,304,740	--
LIABILITIES:			
2110	Accounts Payable	3,644,523	1,407
2140	Interest Payable	5,464,304	--
2165	Accrued Liabilities	8,906,102	7
2177	Due to Fiduciary	136,239	--
2180	Due to Other Governments	3,060,107	--
2300	Unearned Revenue	991,446	--
Noncurrent Liabilities:			
2501	Due Within One Year	6,015,137	--
2502	Due in More Than One Year	347,934,855	--
2540	Net Pension Liability	22,010,814	--
2545	Net OPEB Liability	28,534,482	--
2000	Total Liabilities	426,698,009	1,414
DEFERRED INFLOWS OF RESOURCES:			
2505	Deferred Inflows Related to Pensions	1,206,254	--
2506	Deferred Inflows Related to OPEB	9,023,291	--
2600	Total Deferred Inflows of Resources	10,229,545	--
NET POSITION:			
3200	Net Investment in Capital Assets	21,018,070	--
Restricted For:			
3820	Federal and State Programs	776,733	--
3850	Debt Service	6,035,641	--
3890	Other Restrictions on Fund Balance	1,640,884	--
3900	Unrestricted	(28,624,256)	1,434,549
3000	Total Net Position	\$ 847,072	\$ 1,434,549

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(Except for the discretely presented component unit for which the date is December 31, 2018)

Data Control Codes	Functions/Programs	1	3	4
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
11	Instruction	\$ 51,419,282	\$ 3,986	\$ 6,616,442
12	Instructional Resources and Media Services	1,021,112	--	71,093
13	Curriculum and Staff Development	2,489,056	--	173,224
21	Instructional Leadership	894,011	--	71,472
23	School Leadership	5,306,579	--	488,060
31	Guidance, Counseling, and Evaluation Services	3,753,501	--	386,011
33	Health Services	966,611	--	83,881
34	Student Transportation	2,641,926	--	156,071
35	Food Service	2,732,226	1,603,804	1,158,937
36	Cocurricular/Extracurricular Activities	3,700,698	1,121,929	138,351
41	General Administration	2,720,077	--	173,175
51	Facilities Maintenance and Operations	8,143,551	165,665	325,274
52	Security and Monitoring Services	690,820	--	27,442
53	Data Processing Services	2,388,479	--	70,658
61	Community Services	46,365	--	6,750
72	Interest on Long-term Debt	14,044,438	--	261,714
91	Contracted Instructional Services between Schools	10,554,906	--	138,049
93	Payments Related to Shared Services Arrangements	15,000	--	15,595
99	Other Intergovernmental Charges	726,318	--	--
TG	Total Governmental Activities	<u>114,254,956</u>	<u>2,895,384</u>	<u>10,362,199</u>
TP	Total Primary Government	<u>\$ 114,254,956</u>	<u>\$ 2,895,384</u>	<u>\$ 10,362,199</u>
COMPONENT UNIT:				
1C	Boerne Education Foundation	<u>\$ 495,166</u>	<u>\$ --</u>	<u>\$ 481,383</u>
General Revenues:				
MT	Property Taxes, Levied for General Purposes			
DT	Property Taxes, Levied for Debt Service			
IE	Investment Earnings (Loss)			
GC	Grants and Contributions Not Restricted to Specific Programs			
MI	Miscellaneous			
TR	Total General Revenues			
CN	Change in Net Position			
NB	Net Position - Beginning			
NE	Net Position - Ending			

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Component Unit
\$ (44,798,854)	\$ --
(950,019)	--
(2,315,832)	--
(822,539)	--
(4,818,519)	--
(3,367,490)	--
(882,730)	--
(2,485,855)	--
30,515	--
(2,440,418)	--
(2,546,902)	--
(7,652,612)	--
(663,378)	--
(2,317,821)	--
(39,615)	--
(13,782,724)	--
(10,416,857)	--
595	--
(726,318)	--
<u>(100,997,373)</u>	<u>--</u>
<u>(100,997,373)</u>	<u>--</u>
<u>--</u>	<u>(13,783)</u>
70,497,008	--
21,247,996	--
2,457,470	(35,063)
1S 8,308,593	--
1,806,724	24,199
<u>104,317,791</u>	<u>(10,864)</u>
3,320,418	(24,647)
(2,473,346)	1,459,196
<u>\$ 847,072</u>	<u>\$ 1,434,549</u>

BOERNE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

Data Control Codes	10 General Fund	50 Debt Service
ASSETS:		
1110	\$ 1,076,450	\$ 30,720
1120	27,396,666	5,963,047
1220	1,828,945	519,727
1230	(317,821)	(81,726)
1240	2,500,321	42,276
1260	1,828,428	--
1260	108	--
1290	3,274	--
1300	45,233	--
1410	261,319	--
1000	<u>\$ 34,622,923</u>	<u>\$ 6,474,044</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 339,557	\$ 14
2120	28,597	--
2150	62,235	--
2160	7,409,798	--
2170	2,099,545	388
2170	726,342	--
2170	--	--
2180	3,059,576	--
2200	142	--
2300	25,251	--
2000	<u>13,751,043</u>	<u>402</u>
DEFERRED INFLOWS OF RESOURCES:		
2601	1,511,124	438,001
2600	<u>1,511,124</u>	<u>438,001</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410	45,232	--
3430	261,319	--
Restricted Fund Balances:		
3450	--	--
3470	--	--
3480	--	6,035,641
3490	--	--
Committed Fund Balances:		
3545	677,151	--
3600	18,377,054	--
3000	<u>19,360,756</u>	<u>6,035,641</u>
4000	<u>\$ 34,622,923</u>	<u>\$ 6,474,044</u>

EXHIBIT C-1

60	Other Governmental Funds	98 Total Governmental Funds
Capital Projects		
\$ 78,567	\$ 1,429,301	\$ 2,615,038
25,668,632	2,918,576	61,946,921
--	--	2,348,672
--	--	(399,547)
--	597,972	3,140,569
1,411,902	331,575	3,571,905
--	--	108
--	2,459	5,733
--	14,940	60,173
--	56,698	318,017
<u>\$ 27,159,101</u>	<u>\$ 5,351,521</u>	<u>\$ 73,607,589</u>
\$ 3,165,068	\$ 126,975	\$ 3,631,614
1,810	4,422	34,829
--	--	62,235
--	416,909	7,826,707
86,356	1,385,616	3,571,905
--	--	726,342
1,464	--	1,464
--	531	3,060,107
--	33,256	33,398
--	966,195	991,446
<u>3,254,698</u>	<u>2,933,904</u>	<u>19,940,047</u>
<u>--</u>	<u>--</u>	<u>1,949,125</u>
<u>--</u>	<u>--</u>	<u>1,949,125</u>
--	14,940	60,172
--	56,698	318,017
--	761,793	761,793
23,904,403	--	23,904,403
--	--	6,035,641
--	1,584,186	1,584,186
--	--	677,151
--	--	18,377,054
<u>23,904,403</u>	<u>2,417,617</u>	<u>51,718,417</u>
<u>\$ 27,159,101</u>	<u>\$ 5,351,521</u>	<u>\$ 73,607,589</u>

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BOERNE INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2019*

Total fund balances - governmental funds balance sheet	\$ 51,718,417
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not reported in the funds.	349,430,445
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,949,125
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	633,483
Payables for bond principal which are not due in the current period are not reported in the funds.	(320,837,405)
Payables for bond interest which are not due in the current period are not reported in the funds.	(5,464,304)
Payables for notes which are not due in the current period are not reported in the funds.	(950,000)
Bond premiums are amortized in the SNP, but not in the funds.	(19,087,116)
Accreted interest on bonds is amortized in the SNP, but not in the funds.	(13,075,471)
Recognition of the deferred charge on refunding is not reported in the funds.	1,633,215
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(22,010,814)
Deferred inflows of resources related to the pension plan are not reported in the funds.	(1,206,254)
Deferred outflows of resources related to the pension plan are not reported in the funds.	11,566,933
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(28,534,482)
Deferred inflows of resources related to the OPEB plan are not reported in the funds.	(9,023,291)
Deferred outflows of resources related to the OPEB plan are not reported in the funds.	4,104,592
Rounding difference	(1)
Net position of governmental activities - Statement of Net Position	<u>\$ 847,072</u>

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	10	50
	General Fund	Debt Service
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 72,209,031	\$ 21,359,956
5800 <i>State Program Revenues</i>	11,970,967	261,714
5900 <i>Federal Program Revenues</i>	897,589	--
5020 Total Revenues	<u>85,077,587</u>	<u>21,621,670</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	41,067,865	--
0012 <i>Instructional Resources and Media Services</i>	819,038	--
0013 <i>Curriculum and Staff Development</i>	2,157,510	--
0021 <i>Instructional Leadership</i>	747,853	--
0023 <i>School Leadership</i>	4,386,638	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	2,938,977	--
0033 <i>Health Services</i>	819,337	--
0034 <i>Student Transportation</i>	2,520,528	--
0035 <i>Food Service</i>	66,460	--
0036 <i>Cocurricular/Extracurricular Activities</i>	2,306,940	--
0041 <i>General Administration</i>	2,361,830	--
0051 <i>Facilities Maintenance and Operations</i>	7,322,945	--
0052 <i>Security and Monitoring Services</i>	605,662	--
0053 <i>Data Processing Services</i>	2,157,633	--
0061 <i>Community Services</i>	34,261	--
0071 <i>Principal on Long-term Debt</i>	163,671	6,272,245
0072 <i>Interest on Long-term Debt</i>	--	15,585,094
0073 <i>Bond Issuance Costs and Fees</i>	350	4,107
0081 <i>Capital Outlay</i>	17,976	--
0091 <i>Contracted Instructional Services</i>		
0091 <i> Between Public Schools</i>	10,554,906	--
0093 <i>Payments to Shared Services Arrangements</i>	--	--
0099 <i>Other Intergovernmental Charges</i>	726,318	--
6030 Total Expenditures	<u>81,776,698</u>	<u>21,861,446</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>3,300,889</u>	<u>(239,776)</u>
Other Financing Sources and (Uses):		
7912 <i>Sale of Real or Personal Property</i>	13,855	--
7915 <i>Transfers In</i>	--	--
8911 <i>Transfers Out</i>	(750,000)	--
7080 Total Other Financing Sources and (Uses)	<u>(736,145)</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>2,564,744</u>	<u>(239,776)</u>
0100 Fund Balances - Beginning	<u>16,796,012</u>	<u>6,275,417</u>
3000 Fund Balances - Ending	<u>\$ 19,360,756</u>	<u>\$ 6,035,641</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

60	Other Governmental Funds	98 Total Governmental Funds
Capital Projects		
\$ 1,283,530	\$ 4,018,470	\$ 98,870,987
--	145,133	12,377,814
--	3,156,856	4,054,445
<u>1,283,530</u>	<u>7,320,459</u>	<u>115,303,246</u>
--	2,810,731	43,878,596
224,968	74,996	1,119,002
--	114,697	2,272,207
--	3,000	750,853
--	74,922	4,461,560
--	236,592	3,175,569
--	1,817	821,154
197,486	6,639	2,724,653
--	2,509,327	2,575,787
--	1,063,419	3,370,359
--	1,038	2,362,868
26,148	5,443	7,354,536
--	22,718	628,380
1,738,770	--	3,896,403
--	3,759	38,020
--	--	6,435,916
--	--	15,585,094
--	--	4,457
53,472,197	4,062	53,494,235
--	--	10,554,906
--	15,000	15,000
--	--	726,318
<u>55,659,569</u>	<u>6,948,160</u>	<u>166,245,873</u>
<u>(54,376,039)</u>	<u>372,299</u>	<u>(50,942,627)</u>
--	--	13,855
750,000	734	750,734
--	(734)	(750,734)
<u>750,000</u>	<u>--</u>	<u>13,855</u>
<u>(53,626,039)</u>	<u>372,299</u>	<u>(50,928,772)</u>
77,530,442	2,045,318	102,647,189
<u>\$ 23,904,403</u>	<u>\$ 2,417,617</u>	<u>\$ 51,718,417</u>

BOERNE 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	\$ (50,928,772)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	55,920,050
The depreciation of capital assets used in governmental activities is not reported in the funds.	(7,539,547)
The gain or loss on the sale of capital assets is not reported in the funds.	(72,185)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	91,925
Repayment of bond principal is an expenditure in the funds, but is not an expense in the SOA.	6,272,245
Repayment of loan principal is an expenditure in the funds, but is not an expense in the SOA.	145,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	875,721
(Increase) decrease in accrued interest from beginning of period to end of period.	82,999
The net revenue (expense) of workers' compensation liability is reported with governmental activities.	195,598
Deferred charges on refunding in the funds, but not in the SOA.	(204,152)
Bond premiums are reported in the funds, but not in the SOA.	809,216
GASB 68 on-behalf revenues is reported with governmental activities.	4,174,207
The District's share of the net pension expense is reported with governmental activities.	(5,989,359)
GASB 75 on-behalf revenues is reported with governmental activities.	1,572,528
The District's share of the net OPEB expense is reported with governmental activities.	(2,084,875)
GASB 75 federal funding recognized in the SOA is reported with governmental activities.	(182)
Rounding difference	<u>1</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 3,320,418</u>

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

JUNE 30, 2019

Data Control Codes		Nonmajor Internal Service Fund <u>Workers' Compensation</u>
	ASSETS:	
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 37,983
	<i>Receivables:</i>	
1260	<i>Due from Other Funds</i>	<u>726,342</u>
	Total Current Assets	<u>764,325</u>
1000	Total Assets	<u>\$ 764,325</u>
	LIABILITIES:	
	Current Liabilities:	
2110	<i>Accounts Payable</i>	\$ 12,909
2123	<i>Other Liabilities</i>	<u>117,933</u>
	Total Current Liabilities	<u>130,842</u>
2000	Total Liabilities	<u>130,842</u>
	NET POSITION:	
3800	<i>Restricted</i>	633,483
3000	Total Net Position	<u>\$ 633,483</u>

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes		Nonmajor Internal Service Fund
<u> </u>		<u>Workers'</u> <u>Compensation</u>
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 411,203
5020	Total Revenues	<u>411,203</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	215,460
6400	<i>Other Operating Costs</i>	145
6030	Total Expenses	<u>215,605</u>
1300	Change in Net Position	195,598
0100	Total Net Position - Beginning	437,885
3300	Total Net Position - Ending	<u>\$ 633,483</u>

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Nonmajor Internal Service Fund <u>Workers'</u> <u>Compensation</u>
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external</i>	
<i>Operating Transactions with Other Funds</i>	\$ 411,203
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(415,694)
<i>Other Operating Cash Receipts (Payments)</i>	(145)
Net Cash Provided (Used) by Operating Activities	<u>(4,636)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,636)
Cash and Cash Equivalents at Beginning of Year	42,619
Cash and Cash Equivalents at End of Year	<u>\$ 37,983</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 195,598
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(250,448)
<i>Increase (Decrease) in Accounts Payable</i>	10,931
<i>Increase (Decrease) in Other Liabilities</i>	39,283
Total Adjustments	<u>(200,234)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,636)</u>

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2019

Data Control Codes	Agency Funds
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 91,575
1260 <i>Due from Other Funds</i>	1,464
1410 <i>Prepaid Items</i>	2,960
1000 Total Assets	\$ 95,999
LIABILITIES:	
Current Liabilities:	
2110 <i>Accounts Payable</i>	\$ 4,058
2170 <i>Due to Other Funds</i>	108
2190 <i>Due to Student Groups</i>	91,833
2000 Total Liabilities	95,999
NET POSITION:	
3000 Total Net Position	\$ --

The accompanying notes are an integral part of this statement.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Boerne Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and it complies with the requirements of the appropriate version of Texas Education Agency's (TEA) *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

The Boerne Education Foundation (the "Foundation") is a 501(c)3 nonprofit organization whose purpose is to receive and administer gifts for the District. The Foundation is legally separate from the District but benefits the District and its constituents. The Foundation is included in the District's financial statements as a discretely presented component unit. The fiscal year of the Foundation is January 1 through December 31 of each year. Separate financial statements are issued by the Foundation and can be obtained from Boerne Education Foundation, P.O. Box 8, Boerne, Texas 78006.

B. Government-Wide 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 primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds. 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonable equivalent in value to the interfund services provided and other. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

The District reports the following governmental funds:

General Fund

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects. The restricted proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund.

Permanent Funds

The permanent funds are governmental funds that are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. The District uses these funds for scholarships.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses includes costs of material, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The proprietary fund type used by the District includes the following:

Internal Service Funds

These funds are used to account for and report revenue and expenses related to services provided to parties inside the District on a cost-reimbursement basis. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal service funds are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the governmental-wide financial statements.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

BOERNE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

The District has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The 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 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for the revenue source (within 60 days of year end). All other revenue items are considered measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Government investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

5. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Infrastructure	30 years
Buildings and improvements	20 to 50 years
Vehicles	2 to 15 years
Furniture and equipment	3 to 15 years

6. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued* FOR THE YEAR ENDED JUNE 30, 2019

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Receivable and Payables Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

8. Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidations. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide Statement of Net Position.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued *FOR THE YEAR ENDED JUNE 30, 2019*

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The District's Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District's Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, which is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily or permanently restricted net position is reclassified to unrestricted net position. The Foundation's Board of Directors has established an investment account to accumulate funds to be held in perpetuity, along with any earnings from the investment account, to support the Foundation at management's discretion.

12. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

13. Estimates

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

14. Data Control Codes

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

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED JUNE 30, 2019

15. Pensions

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

16. Other Postemployment Benefits

The fiduciary net position of the TRS Texas Public School Retired Employees Group Insurance Program ("TRS-Care") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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 or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued* FOR THE YEAR ENDED JUNE 30, 2019

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

A. Expenditures in Excess of Appropriations

For the year, expenditures exceeded appropriations at the legal level of control as follows:

General Fund	
11- Instruction	\$ 16,366
36 - Cocurricular/Extracurricular Activities	\$137,811
52 - Security and Monitoring Services	\$ 18,252
53 - Data Processing Services	\$ 46,947

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

1. Cash Deposits

At June 30, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,744,596 and the bank balance was \$3,667,405. The District's cash deposits 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 Foundation's cash and cash equivalents are held in one financial institution and cash balances of up to \$250,000 are secured by the FDIC. As of December 31, 2018, the Foundation's cash balance was \$218,393 and the carrying balance was \$223,554.

2. Investments

The District is required by Government Code Chapter 2256, the Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions: 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas; 2) certificates of deposit; 3) certain municipal securities; 4) securities lending program; 5) repurchase agreements; 6) bankers' acceptances; 7) mutual funds; 8) investment pools; 9) guaranteed investment contracts; and 10) commercial paper.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEAR ENDED JUNE 30, 2019

As of June 30, 2019, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Ratings *</u>	<u>Weighted Average Maturity (Days)</u>
Frost Bank - Federal Agency Coupons	\$ 7,951,903	AA+	0.67
External investment pools:			
Lone Star	1,575,790	AAAm	0.11
TexPool	52,261,086	AAAm	0.09
Texas TERM	158,143	AAAm	0.10
Total Value	<u>\$ 61,946,922</u>		
Portfolio weighted average maturity			0.17

* Rated by Standard and Poor's Investor Services

The Foundation's investment at December 31, 2018 is shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Ratings *</u>	<u>Weighted Average Maturity (Days)</u>
Frost Bank - Investment Securities	\$ 1,217,571	AAA	2.90
Total Value	<u>\$ 1,217,571</u>		

* Rated by Standard and Poor's Investor Services

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of June 30, 2019, the District's investments in Lone Star, TexPool, and Texas TERM were rated 'AAAm' by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

Custodial credit risk – deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of June 30, 2019, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

Lone Star

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both Lone Star members and nonmembers. Lone Star is rated 'AAAm' by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of \$1.00. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of \$1.00.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

TexasTERM

The Texas Term Local Government Investment Pool (TexasTERM) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexasTERM is administered by PFM Asset Management LLC, which also serves as the investment advisor. The reported value of TexasTERM is the same as the fair value of TexasTERM shares. Investment options include TexasDAILY, a money market portfolio, which is rated "AAAm" by Standard and Poor's and TexasTERM CD Purchase Program, a fixed rate, fixed-term investment option enabling investors to invest in FDIC-insured certificates of deposit from banks throughout the United States.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets not being depreciated:				
Land	\$ 14,107,101	\$ 6,077,583	\$ -	\$ 20,184,684
Construction in progress	76,151,735	49,366,895	(31,735,694)	93,782,936
Total capital assets not being depreciated	<u>90,258,836</u>	<u>55,444,478</u>	<u>(31,735,694)</u>	<u>113,967,620</u>
Other capital assets:				
Buildings and improvements	236,672,637	30,891,276	(75,000)	267,488,913
Furniture and equipment	8,523,209	91,955	-	8,615,164
Vehicles	7,090,488	383,617	(501,443)	6,972,662
Infrastructure	26,085,908	844,418	-	26,930,326
Total other capital assets	<u>278,372,242</u>	<u>32,211,266</u>	<u>(576,443)</u>	<u>310,007,065</u>
Less accumulated depreciation for:				
Buildings and improvements	(43,656,154)	(5,282,875)	75,000	(48,864,029)
Furniture and equipment	(4,553,584)	(518,011)	-	(5,071,595)
Vehicles	(3,496,442)	(434,499)	429,258	(3,501,683)
Infrastructure	(15,802,772)	(1,304,162)	-	(17,106,934)
Total accumulated depreciation	<u>(67,508,952)</u>	<u>(7,539,547)</u>	<u>504,258</u>	<u>(74,544,241)</u>
Other capital assets, net	<u>210,863,290</u>	<u>24,671,719</u>	<u>(72,185)</u>	<u>235,462,824</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 301,122,126</u></u>	<u><u>\$ 80,116,197</u></u>	<u><u>\$ (31,807,879)</u></u>	<u><u>\$ 349,430,444</u></u>

Depreciation was charged to governmental functions as follows:

	Governmental Activities
11 Instruction	\$ 4,329,354
12 Instructional resources/media services	83,827
13 Curriculum and staff development	227,402
21 Instructional leadership	95,810
23 School leadership	492,165
31 Guidance, counseling, and evaluation services	344,855
33 Health services	87,898
34 Student (pupil) transportation	262,905
35 Food service	11,778
36 Extracurricular activities	230,772
41 General administration	261,344
51 Plant maintenance and operations	817,902
52 Security and monitoring services	62,162
53 Data processing services	225,405
61 Community services	5,968
Total Depreciation Expense	<u><u>\$ 7,539,547</u></u>

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:						
Bonds payable:						
Series 1999 - 4.00%-5.00%	\$ 38,597,407	\$ 6,195,280	\$ -	\$ (1,177,245)	\$ 5,018,035	\$ 1,113,582
Series 2002 - 3.50%-5.00%	7,736,757	116,757	-	-	116,757	31,555
Series 2011 - 1.69%-3.31%	8,949,994	6,625,000	-	(685,000)	5,940,000	890,000
Series 2012 - 1.60%-5.00%	61,557,620	45,827,620	-	(2,405,000)	43,422,620	1,785,000
Series 2013 - 3.00%-5.00%	98,025,000	93,750,000	-	(680,000)	93,070,000	700,000
Series 2014 - 0.60%-3.55%	8,854,992	8,364,993	-	(80,000)	8,284,993	80,000
Series 2015 - 2.69%	5,380,000	4,970,000	-	(470,000)	4,500,000	465,000
Series 2016 - 2.00%-5.00%	81,545,000	80,145,000	-	(675,000)	79,470,000	700,000
Series 2017 - 3.00%-5.00%	81,215,000	81,115,000	-	(100,000)	81,015,000	100,000
Note payable:						
Series 2015 - 0.50%-2.25%	1,500,000	1,095,000	-	(145,000)	950,000	150,000
	<u>393,361,771</u>	<u>328,204,650</u>	<u>-</u>	<u>(6,417,245)</u>	<u>321,787,405</u> *	<u>\$ 6,015,137</u>
Other liabilities:						
Issuance premiums/discount	-	19,896,332	-	(809,216)	19,087,116 *	-
Accreted interest	-	13,951,192	-	(875,721)	13,075,471 *	-
Net pension liability	-	12,607,080	10,750,856	(1,347,122)	22,010,814	-
Net OPEB liability	-	23,459,856	5,468,865	(394,239)	28,534,482	-
Total Governmental Activities	<u>\$ 393,361,771</u>	<u>\$ 398,119,110</u>	<u>\$ 16,219,721</u>	<u>\$ (9,843,543)</u>	<u>\$ 404,495,288</u>	<u>\$ 6,015,137</u>
					<u>\$ 398,480,151</u>	
						<u>\$ 353,949,992</u>

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Interest expense was \$15,603,765 for the year ended June 30, 2019.

The annual requirements to amortize debt issues outstanding at year end were as follows:

Bonds Payable

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2020	\$ 5,865,137	\$ 15,985,557	\$ 21,850,694
2021	6,105,634	15,873,378	21,979,012
2022	6,327,447	15,751,477	22,078,924
2023	6,466,237	15,591,913	22,058,150
2024	6,420,336	15,417,472	21,837,808
2025-2029	46,132,140	61,098,126	107,230,266
2030-2034	56,295,474	48,127,415	104,422,889
2035-3039	59,835,000	34,674,500	94,509,500
2040-2044	68,450,000	20,355,100	88,805,100
2045-2049	58,940,000	5,510,200	64,450,200
	<u>\$ 320,837,405</u>	<u>\$ 248,385,138</u>	<u>\$ 569,222,543</u>

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED JUNE 30, 2019

Note Payable

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2020	\$ 150,000	\$ 17,105	\$ 167,105
2021	155,000	15,110	170,110
2022	160,000	12,769	172,769
2023	165,000	10,113	175,113
2024	170,000	6,945	176,945
2025-2029	150,000	3,375	153,375
	<u>\$ 950,000</u>	<u>\$ 65,416</u>	<u>\$ 1,015,416</u>

D. Commitments Under Noncapitalized Leases

The District has various operating lease agreements where the future minimum payments are immaterial to the operations of the District and, accordingly, the District has elected not to disclose future payments by fiscal year.

E. Interfund Transactions

The interfund balances and transfers at June 30, 2019 were as follows:

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ 79,468
General Fund	Debt Service Fund	388
General Fund	Special Revenue Fund	1,194,052
General Fund	General Fund	64,229
General Fund	Trust and Agency Fund	490,398
Internal Service Fund	General Fund	276,894
Internal Service Fund	Trust and Agency Fund	449,448
Special Revenue Fund	General Fund	123,618
Special Revenue Fund	Special Revenue Fund	191,187
Special Revenue Fund	Trust and Agency Fund	16,769
Capital Projects Fund	General Fund	1,402,633
Capital Projects Fund	Trust and Agency Fund	9,269
Trust and Agency Fund	Trust and Agency Fund	1,464
	Total	<u>\$ 4,299,818</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Capital Projects Fund	\$ 750,000	To supplement revenue
Special Revenue Fund	Special Revenue Fund	734	To supplement revenue
	Total	<u>\$ 750,734</u>	

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

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 TRS. It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. TRS'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 TRS.

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, TX, 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% (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

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

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 cost-of-living adjustments (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 TRS during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

<u>Contribution Rates</u>	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
NECE (State)	6.8%	6.8%
Employer	6.8%	6.8%

	<u>Measurement Year (2018)</u>	<u>Fiscal Year (2019)</u>
Employer contributions	\$ 1,347,122	\$ 1,208,597
Member contributions	\$ 3,762,519	\$ 4,094,849
NECE on-behalf contributions	\$ 2,579,623	\$ 2,869,828

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

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of TRS 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 as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days 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 TRS 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.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED JUNE 30, 2019

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

- 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 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.

Actuarial Assumptions

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

Valuation date	August 31, 2017 rolled forward to August 31,
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	6.907%
Long-term expected investment rate of return	7.25%
Municipal bond rate	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.3%
Salary increases including inflation	3.05% to 9.05%
Benefit changes during the year	None
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions are based primarily 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 TPL was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from TRS members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEAR ENDED JUNE 30, 2019

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

**Teacher Retirement System of Texas
 Asset Allocation and Long-Term Expected Real Rate of Return
 As of August 31, 2018**

	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns *</u>
Global Equity			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Returns	0.0%	0.0%	0.0%
Hedge Funds (Stable Value)	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflation-Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy and Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation	0.0%		2.3%
Alpha	0.0%		-0.8%
Total	<u>100.0%</u>		<u>7.1%</u>

* The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability (NPL) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the NPL:

	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	<u>\$ 33,219,597</u>	<u>\$ 22,010,814</u>	<u>\$ 12,936,640</u>

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

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

At June 30, 2019, the District reported a liability of \$22,010,814 for its proportionate share of the TRS's NPL. 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 NPL, the related State support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$	22,010,814
State's proportionate share that is associated with the District		42,175,066
Total	\$	<u>64,185,880</u>

The NPL was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2017 through August 31, 2018.

At June 30, 2019, the District's proportion of the collective NPL was 0.0399888%, which was an increase of 0.0005604% from its proportion measured 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 TPL since the prior measurement period.

- The TPL as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions, including post-retirement mortality, termination rates, and rates of retirement, were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions, including rates of salary increase for individual participants, were updated based on the same experience study.
- The discount rate changed from 8.000% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.00% to 7.25%.
- 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 NPL.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended June 30, 2019, the District recognized pension expense of \$4,174,207 and revenue of \$4,174,207 for support provided by the State.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

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
Difference between expected and actual economic experience	\$ 137,197	\$ (540,058)
Changes in actuarial assumptions	7,935,959	(247,999)
Difference between projected and actual investment earnings	-	(417,640)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,285,180	(557)
Contributions paid to TRS subsequent to the measurement date	1,208,597	-
Total	\$ 11,566,933	\$ (1,206,254)

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:

Fiscal Year Ended June 30	Pension Expense
2020	\$ 2,470,000
2021	1,591,106
2022	1,339,943
2023	1,474,235
2024	1,387,690
Thereafter	889,108
Total	\$ 9,152,082

D. Defined Other Postemployment Benefit Plan

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined benefit OPEB plan that has a special funding situation. TRS-Care is administered through a trust by the TRS Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed 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 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.

Components of the net OPEB liability of TRS-Care as of August 31, 2018 are as follows:

Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	<u>798,574,633</u>
Net OPEB Liability	\$ <u>51,528,064,736</u>

Net position as a percentage of total OPEB liability 1.57%

Benefits Provided

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

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED JUNE 30, 2019

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 (the “Optional Health Insurance”). 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 ten years of service credit in TRS. The Board 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 cost-of-living adjustments.

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 Plan Premium Rates
Effective January 16 - December 31, 2017

	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and spouse	\$ 529	\$ 689
Retiree* and children	\$ 468	\$ 408
Retiree and family *or surviving spouse	\$ 1,020	\$ 999

Contributions

Contribution rates for TRS-Care are established in state statute by the Texas Legislature and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care 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 of Texas (the “State”), active employees, and school districts based upon public school district payroll. The TRS Board 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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% 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 TRS-Care by type of contributor:

	Contribution Rates	
	Fiscal Year	
	2018	2019
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement Year (2018)	Fiscal Year (2019)
Employer contributions	\$ 394,239	\$ 420,542
Member contributions	\$ 317,615	\$ 345,669
NECE on-behalf contributions	\$ 596,455	\$ 664,748

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

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

TRS-Care received supplemental appropriations from the State as the NECE 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 fiscal year 2018-2019 biennium to continue to support TRS-Care. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions

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

- A change was made in the measurement date of the total OPEB liability for the TRS 2019 fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This was the first year the roll-forward procedures were used.
- The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the TRS pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability; and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation.
- The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.
- Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and an initial medical trend rate of 6.75% for non-Medicare retirees were used. The initial prescription drug trend rate was 11.00% for all retirees. The first-year trend rate increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.

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:

- | | |
|----------------------------------|----------------------------|
| 1. Rates of Mortality | 5. General Inflation |
| 2. Rates of Retirement | 6. Wage Inflation |
| 3. Rates of Termination | 7. Expected Payroll Growth |
| 4. Rates of Disability Incidence | |

Additional actuarial methods and assumptions are as follows:

Valuation date	8/31/2017 rolled forward to 8/31/2018
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Single discount rate	3.69%. Sourced from 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.
Aging factors	Based on plan-specific experience
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of healthcare benefits are included in the age-adjusted claims costs.
Projected salary increases*	3.05% to 9.05%, including inflation
Ad hoc postemployment benefit changes	None

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

The impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because TRS-Care 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 NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used 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 net OPEB liability	\$ 33,965,837	\$ 28,534,482	\$ 24,237,930

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate of 8.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than or 1% higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ 23,698,352	\$ 28,534,482	\$ 34,903,770

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At June 30, 2019, the District reported a liability of \$28,534,482 for its proportionate share of TRS-Care'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	\$ 28,534,482
State's proportionate share that is associated with the District	43,232,210
Total	\$ 71,766,692

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 District’s proportion of the net OPEB liability was based on the District’s contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2017 through August 31, 2018.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued FOR THE YEAR ENDED JUNE 30, 2019

At June 30, 2019, the employer's proportion of the collective net OPEB liability was 0.0571479%, compared to 0.0539478% 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 OPEB liability since the prior measurement period:

- Adjustments were made for retirees that were known to have discontinued their healthcare coverage in fiscal year 2018. This change increased the total OPEB liability.
- The healthcare trend rate assumption was updated to reflect the anticipated return of the 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 ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

The following are changes in benefit terms since the prior measurement date effective September 1, 2017 by the 85th Texas Legislature:

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$1,572,528 and revenue of \$1,572,528 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,514,219	\$ (450,316)
Changes in actuarial assumptions	476,163	(8,572,975)
Differences between projected and actual investment earnings	4,990	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,754,361	-
Contributions paid to TRS subsequent to the measurement date	354,859	-
Total	\$ 4,104,592	\$ (9,023,291)

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued FOR THE YEAR ENDED JUNE 30, 2019

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

Fiscal Year Ended June 30	OPEB Expense
2020	\$ (904,807)
2021	(904,807)
2022	(904,807)
2023	(905,750)
2024	(906,290)
Thereafter	(747,097)
Total	\$ (5,273,558)

Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended June 30, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on behalf of the District were \$190,770, \$146,954, and \$143,325, respectively.

E. Employee 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 paid premiums of \$305 per month per employee, \$320 per month per employee with child, \$335 per month per employee and spouse, and \$350 per month per employee and family to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2019 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation

During the year ended June 30, 2019, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperative Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2018, the Fund carries a discount reserve of \$48,977,531 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended June 30, 2019, the Fund anticipated no additional liability to members beyond their contractual obligation for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

BOERNE INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED JUNE 30, 2019

G. Unemployment Compensation

During the year ended June 30, 2019, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended June 30, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

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APPENDIX D

Form of Opinion of Bond Counsel

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DRAFT

IN REGARD to the authorization and issuance of the “Boerne Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2020” (the *Bonds*), dated November 15, 2020, in the aggregate original principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Boerne Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity) in part as “Current Interest Bonds” (totaling in original principal amount of \$_____) and in part as “Premium Capital Appreciation Bonds” (in original principal amount of \$_____). The Current Interest Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, inclusive, and February 1, 20__ through 20__, inclusive, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Current Interest Bonds. The Premium Capital Appreciation Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Premium Capital Appreciation Bonds. Interest on the Bonds accrues or accretes from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the Issuer’s obligations being refunded by the Bonds, and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow and Trust Agreement (the *Escrow Agreement*) between the Issuer and Zions Bancorporation, National Association, dba Amegy Bank, Houston, Texas (the *Escrow Agent*), and a special report (the *Report*) of Ritz & Associates PA, Bloomington, Minnesota (the *Verification Agent*), concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer,

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Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “BOERNE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2020”

and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bonds executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the Issuer and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain 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 the order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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