

OFFICIAL STATEMENT
Dated August 1, 2019

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

\$72,790,000

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

Dated Date: August 1, 2019

Due: February 1, as shown on following page

The \$72,790,000 Southwest Independent School District Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") are being issued by the Southwest Independent School District (the "Issuer" or the "District") pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), as amended Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held within the District on November 6, 2018 (the "Election") and an order (the "Order") adopted by the District's Board of Trustees (the "Board") on June 18, 2019. As permitted by Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each a "Designated Financial Official") to execute an approval certificate (the "Approval Certificate") establishing the final sale terms for the Bonds. (See "THE BONDS - Authority for Issuance" herein.) The Approval Certificate was executed by the Assistant Superintendent of Business and Finance, a Designated Financial Official, on August 1, 2019.

The Bonds are direct obligations payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein.) The Issuer has applied for and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Interest on the Bonds will accrue from the Dated Date shown above and will be payable initially on August 29, 2019 (an irregular interest payment date) and semiannually thereafter on each February 1 and August 1 of each year until the earlier of stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co. (the "Securities Depository") the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein.

Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including a new natatorium (and any necessary or related removal of existing facilities), (ii) the purchase of new school buses, (iii) the purchase of the necessary sites for school facilities, and (iv) paying the costs of issuance of the Bonds, as authorized at the Election. (See "THE BONDS – Use of Bond Proceeds" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS
 INTEREST RATES, INITIAL YIELDS, AND REDEMPTION PROVISIONS FOR THE BONDS

The Bonds are offered for delivery, when, as and if issued and received by the initial purchasers named below (collectively the "Underwriters"), and 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"). Certain matters will be passed upon for the Underwriters by their counsel, Escamilla & Poneck, LLP, San Antonio, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. (See "APPENDIX C – Form of Legal Opinion of Bond Counsel".) It is expected that the Bonds will be available for delivery through DTC on or about August 21, 2019.

Raymond James

HilltopSecurities
Estrada Hinojosa & Company, Inc.

Piper Jaffray & Co.

\$72,790,000
SOUTHWEST INDEPENDENT SCHOOL DISTRICT
Unlimited Tax School Building Bonds, Series 2019

STATED MATURITY SCHEDULE
(Due February 1)

CUSIP ⁽¹⁾ No. Prefix: 845267

\$39,655,000 Serial Bonds

Stated				CUSIP	Stated				CUSIP
Maturity	Principal	Interest	Initial	No.	Maturity	Principal	Interest	Initial	No.
<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> ⁽¹⁾	<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> ⁽¹⁾
2020	\$ 115,000	3.000%	1.140%	YN7	2030	\$ 2,135,000	3.000%	2.080% ⁽²⁾	YY3
2021	600,000	3.000%	1.160%	YP2	2031	2,200,000	3.000%	2.250% ⁽²⁾	YZ0
2022	1,750,000	3.000%	1.160%	YQ0	2032	2,270,000	3.000%	2.400% ⁽²⁾	ZA4
2023	1,800,000	3.000%	1.180%	YR8	2033	2,340,000	3.000%	2.510% ⁽²⁾	ZB2
2024	1,325,000	3.000%	1.230%	YS6	2034	2,410,000	3.000%	2.580% ⁽²⁾	ZC0
2025	1,740,000	4.000%	1.320%	YT4	2035	2,485,000	3.000%	2.650% ⁽²⁾	ZD8
2026	1,810,000	4.000%	1.420%	YU1	2036	2,560,000	3.000%	2.700% ⁽²⁾	ZE6
2027	1,895,000	5.000%	1.500%	YV9	2037	2,635,000	3.000%	2.740% ⁽²⁾	ZF3
2028	1,995,000	5.000%	1.580%	YW7	2038	2,715,000	3.000%	2.780% ⁽²⁾	ZG1
2029	2,075,000	3.000%	1.860% ⁽²⁾	YX5	2039	2,800,000	3.000%	2.820% ⁽²⁾	ZH9

\$33,135,000 Term Bonds

\$15,325,000 3.000% Term Bonds due on February 1, 2044 and priced to yield 2.950% ⁽²⁾ CUSIP Suffix ⁽¹⁾ ZJ5
 \$17,810,000 3.000% Term Bonds due February 1, 2049 and priced to yield 3.000% CUSIP Suffix ⁽¹⁾ ZK2

(Accrued interest to be added from the Dated Date)

The Bonds maturing on or after February 1, 2029 are subject to optional redemption in whole or in part on February 1, 2028 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. Additionally, the Bonds maturing on February 1, 2044 and February 1, 2049 (the "Term Bonds") will also be subject to mandatory sinking fund redemption. (See "THE BONDS – Redemption").

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

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
11914 Dragon Lane
San Antonio, Texas 78252
Telephone: (210) 622-4300

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)
Mike C. Frazier President	39	2020
Sylvester Vasquez, Jr. Vice-President	19	2022
Ida Sudolcan Secretary	16	2022
James Sullivan, Jr. Assistant Secretary	14	2021
Florinda Bernal Member	13	2021
Keith Byrom, Ph.D Member	35	2021
Yolanda Garza-Lopez	11	2020

ADMINISTRATION

Name	Position	Years of Service With the District
Dr. Lloyd Verstuyft	Superintendent of Schools	29 years
Mr. Homero Rodriguez	Deputy Superintendent	45 years
Mr. Brandon Crisp	Assistant Superintendent of Business and Finance	10 years
Ms. Dalia Garcia	Assistant Superintendent for Curriculum and Instruction	5 years
Dr. JoAnn Fey	Assistant Superintendent for Administration and HR	23 years

CONSULTANTS AND ADVISORS

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

Certified Public Accountants Coleman, Horton & Company, LLP
Uvalde, Texas

Financial Advisor SAMCO Capital Markets, Inc.
San Antonio, Texas

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afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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

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

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.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION IS PROVIDED BY DTC AND THE TEA, RESPECTIVELY.

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

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The cover page, subsequent pages hereof, and the appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The Southwest Independent School District (the "District" or "Issuer") is a political subdivision of the State of Texas located in southwest Bexar County. The District encompasses approximately 115 square miles and serves a population of approximately 63,458. The District was created at a special election in April, 1962. It was formed by combining the Common School Districts of Medina, Von Ormy, Tinsley, Macdona and District No. 29 (Idlewild). Prior to becoming Southwest Independent School District, this combination was known as Southwest Rural High School District No. 29. Policy-making and supervisory functions are the responsibility of a seven-member Board of Trustees (the "Board") with elections held each year in May. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. (See "APPENDIX B – General Information Regarding the Southwest Independent School District, and Bexar County, Texas" herein.)
The Bonds	The Bonds are being issued as pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held within the District on November 6, 2018 (the "Election"), and an order (the "Order") adopted by the Board on June 18, 2019. As permitted by Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each a "Designated Financial Official") to execute an approval certificate (the "Approval Certificate") establishing the final sale terms for the Bonds. (See "THE BONDS - Authority for Issuance" herein.) The Approval Certificate was executed by the Assistant Superintendent of Business and Finance, a Designated Financial Official, on August 1, 2019
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Security	The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See "THE BONDS - Security for Payment" herein; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.) Additionally, the Issuer has applied for and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)
Redemption Provision of the Bonds	The Issuer reserves the right to redeem Bonds, at its option, maturing on or after February 1, 2029 in whole or in part on February 1, 2028, or any date thereafter at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Bonds maturing on February 1, 2044 and February 1, 2049 (the "Term Bonds") will also be subject to mandatory sinking fund redemption. (See "THE BONDS – Redemption").
Tax Matters	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel to the District, interest on the Bonds for federal income tax purposes, under and pursuant to statutes, regulations, published rulings, and court decisions existing on the date hereof, (1) will be excludable from the gross income of the owners thereof, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including a new natatorium (and any necessary or related removal of existing facilities), (ii) the purchase of new school buses, (iii) the purchase of the necessary sites for school facilities, and (iv) paying the costs of issuance of the Bonds, as authorized at the Election. (See "THE BONDS – Use of Bond Proceeds" herein.)
Ratings	S&P Global Ratings ("S&P"), has assigned a rating of "AAA" to the Bonds based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. S&P has assigned an unenhanced, underlying rating to the general obligation indebtedness (including the Bonds) of "AA-". (See "OTHER PERTINENT INFORMATION - Rating" and the "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

Book-Entry-Only System

The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. The principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/ Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

Payment Record

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

Future Bond Issues

The Issuer does not anticipate the issuance of additional debt in the next twelve months except potentially issuing refunding bonds for debt service savings.

Delivery

When issued, anticipated on or about August 21, 2019.

Legality

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas.

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OFFICIAL STATEMENT
relating to

\$72,790,000
SOUTHWEST INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the Southwest Independent School District (the "District" or "Issuer") of its \$72,790,000 Unlimited Tax School Building Bonds, Series 2019 (the "Bonds") identified on page 2 hereof.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State") duly organized and existing under the laws of the State. The Bonds are issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held within the District on November 6, 2018 (the "Election"), and an order (the "Order") adopted by the District's Board of Trustees (the "Board") on June 18, 2019. As permitted by Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each a "Designated Financial Official") to execute an approval certificate (the "Approval Certificate") establishing the final sale terms for the Bonds. (See "THE BONDS - Authority for Issuance" herein.) The Approval Certificate was executed by the Assistant Superintendent of Business and Finance, a Designated Financial Official, on August 1, 2019.

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order. Included in this Official Statement are descriptions of the Bonds and certain information about the Issuer and its finances. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Issuer or the Financial Advisor, upon request by electronic mail or upon payment of reasonable copying, mailing, handling, and delivery 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 will be deposited with the Municipal Securities Rulemaking Board, (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

General Description

The Bonds will be dated August 1, 2019 (the "Dated Date"). Interest on the Bonds will accrue from the Dated Date, with such interest payable initially on August 29, 2019 (an irregular interest payment date) and semiannually thereafter on February 1 and August 1 in each year until the earlier of stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in denominations of \$5,000 principal or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas, to the registered owner at the last known address as it appears on the Bond registration books maintained by the Paying Agent/Registrar (the "Register") on the Record Date (defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, including Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, the Election, and the Order.

Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. The Issuer has applied for and received conditional approval from the Texas Education Agency (the "TEA") for the Bonds to be guaranteed under the State of Texas 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; see also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.

Permanent School Fund Guarantee

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

Redemption

Optional Redemption

The Issuer reserves the right, at its sole option, to redeem Bonds stated to mature, on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds within a stated maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption

The Bonds stated to mature on February 1, 2044 and February 1, 2049 are referred to herein as the "Term Bonds". The Term Bonds are also subject to mandatory redemption prior to maturity in part and by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on February 1, in the years and principal amounts shown below:

Term Bonds to Mature on February 1, 2044		Term Bonds to Mature on February 1, 2049	
Year	Principal Amount	Year	Principal Amount
2040	\$2,885,000	2045	\$3,350,000
2041	2,970,000	2046	3,455,000
2042	3,065,000	2047	3,560,000
2043	3,155,000	2048	3,665,000
2044	3,250,000*	2049	3,780,000*

*Payable at Stated Maturity.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 1 from money set aside for that purpose in the Bond Fund. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

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

Notice of Redemption and DTC Notices

At least 30 days prior to the date fixed for any redemption of any Bonds or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance 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, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer 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.)

Selection of Bonds to be Redeemed

The Bonds of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Bonds to be partially redeemed must be surrendered in exchange for one or more new Bonds for the unredeemed portion of the principal. If less than all of the Bonds are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bonds, or portion thereof, to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Legality

The Bonds are offered when, as and if issued, 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. (See "LEGAL MATTERS" herein and "APPENDIX C – Form of Legal Opinion of Bond Counsel").

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used for providing funds for (i) designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including a new natatorium (and any necessary or related removal of existing facilities), (ii) the purchase of new school buses, (iii) the purchase of the necessary sites for school facilities, and (iv) paying the costs of issuance of the Bonds, as authorized at the Election.

The Bonds constitute the first and final installment of a total amount of \$75,000,000 authorized at the Election. After the issuance of the Bonds, the District will have no remaining voter authorized but unissued ad valorem tax supported bonds.

Sources and Uses of Funds

Sources	
Par Amount of the Bonds	\$ 72,790,000.00
Accrued Interest on the Bonds	127,004.24
Reoffering Premium	<u>2,880,497.25</u>
Total Sources of Funds	<u>\$ 75,797,501.49</u>
Uses	
Construction Fund Deposit	\$ 75,000,000.00
Underwriters' Discount	386,740.00
Bond Fund Deposit	127,004.24
Costs of Issuance	<u>283,757.25</u>
Total Uses	<u>\$ 75,797,501.49</u>

Payment Record

The Issuer has not defaulted on the payment of its bonded indebtedness.

Amendments

The Issuer 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 Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal or 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 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 Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, 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, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authorization and Purpose"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due). The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). The Bonds are being issued in fully registered form in integral multiples of \$5,000 of principal amount, as applicable. If the Bonds are no longer held in the Book-Entry-Only System, interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Register on the Record Date.

If the Bonds are no longer held in the Book-Entry-Only System, principal of the Bonds will be payable at stated maturity upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar. So long as Cede & Co. is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM."

Successor Paying Agent/Registrar

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Future Registration

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

registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom the interest on any Bond is payable on any interest payment date means the close of business on the fifteenth day of the preceding month (except with respect to the August 29, 2019 irregular interest payment date, for which the Record Date shall be the Bonds' initial delivery date). In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

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

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

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations together so certified sufficient to make such payment. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Order. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "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, or (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. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, 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.

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

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

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 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) is 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates representing each Bond stated maturity are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates representing each Bond stated maturity will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District, the Financial Advisor, and the Underwriters believe to be reliable, but none of the District, the Financial Advisor, nor the Underwriters take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Bonds, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board ("SLB") maintains the land endowment of the Fund on behalf of the Fund and is generally authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the "Land Commissioner") and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the "Attorney General"). (But see "2019 Texas Legislative Session" for a description of legislation that is expected to change the composition of the SLB). As of August 31, 2018, the General Land Office (the "GLO") managed approximately 23% 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 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 2018 distributions to the ASF amounted to an estimated \$247 per student and the total amount distributed to the ASF was \$1,235.8 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, 2018, 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, 2018 is derived from the audited financial statements of the PSF, which are included in the Annual Report when 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, 2018 and for a description of the financial results of the PSF for the year ended August 31, 2018, the most recent year for which audited financial information regarding the Fund is available. The 2018 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2018 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

2019 Texas Legislative Session

During the 86th Regular Session of the Texas Legislature, which concluded on May 27, 2019 (the “86th Session”), various bills were enacted that relate to the PSF. Among such enacted legislation are bills that relate to the composition of the SLB and its relationship to the SBOE with respect to the management of the PSF. Legislation was approved that will change the composition of the SLB to a five member board from a

three member board. Under that bill, the Land Commissioner will continue to head the SLB, but the remaining four members will be appointed by the Governor, and of those four members, two are required to be selected from a list of nominees to be submitted to the Governor by the SBOE. That legislation also requires an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. Other enacted legislation requires the SLB and the SBOE to provide quarterly financial reports to each other and creates a “permanent school fund liquid account” in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. Such funds shall be invested in liquid assets in the same manner that the PSF is managed until such time as the funds are required for investment by the SLB. That legislation also requires the Texas Education Agency, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. In addition, a joint resolution was approved that proposes 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. That constitutional change is subject to approval at a State-wide referendum to be conducted on November 5, 2019.

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, should State voters approve the proposed constitutional amendment described above on November 5, 2019.

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 Constitutional Amendment” 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 that may affect Distribution Rate decisions.

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

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in 2018. The Fund's investment policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The 2004 asset allocation policy decreased the fixed income target from 45% to 25% of Fund investment assets and increased the allocation for equities from 55% to 75% of investment assets. Subsequent asset allocation policies have continued to diversify Fund assets, and have added an alternative asset allocation to the fixed income and equity allocations. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. The most recent asset allocation, from 2016, which was reviewed and reaffirmed in June 2018, is as follows: (i) an equity allocation of 35% (consisting of U.S. large cap equities targeted at 13%, international equities at 14% and emerging international equities at 3%) and U.S. small/mid cap equities at 5%), (ii) a fixed income allocation of 19% (consisting of a 12% allocation for core bonds and a 7% allocation for emerging market debt in local currency) and (iii) an alternative asset allocation of 46% (consisting of a private equity allocation of 13%, a real estate allocation of 10%, an absolute return allocation of 10%, a risk parity allocation of 7% and a real return allocation of 6%). The 2016 asset allocation decreased U.S. large cap equities and international equities by 3% and 2%, respectively, and increased the allocations for private equity and real estate by 3% and 2%, respectively.

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2018, the Fund's financial assets portfolio was invested as follows: 40.52% in public market equity investments; 13.25% in fixed income investments; 10.35% in absolute return assets; 9.16% in private equity assets; 7.47% in real estate assets; 6.78% in risk parity assets; 5.95% in real return assets; 6.21% in emerging market debt; and 0.31% in unallocated cash.

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

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual institution, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described above, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to the total-return on all investment assets of the Fund over a rolling ten-year period. State law provides that each transfer of funds from the PSF to the ASF is made monthly, with each transfer to be in the amount of one-twelfth of the annual distribution. The heavier weighting of equity securities and alternative assets relative to fixed income investments has resulted in greater volatility of the value of the Fund. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested. The asset allocation of the Fund's financial assets portfolio is subject to change by the SBOE from time to time based upon a number of factors, including recommendations to the SBOE made by internal investment staff and external consultants, changes made by the SBOE without regard to such recommendations and directives of the Legislature. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets in the United States and abroad; political and investment considerations including those relating to socially responsible investing; economic impacts relating to domestic and international climate change; development of hostilities in and among nations; cybersecurity issues that affect the securities markets, changes in international trade policies, economic activity and investments, in general, application of the prudent person investment standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and limitations on the number and compensation of internal and external investment staff, which is subject to legislative oversight. The Guarantee Program could also be impacted by changes in State or federal law or the implementation of new accounting standards.

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the SLB. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see "2011 Constitutional Amendment" 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. Based upon the cost basis of the Fund at August 31, 2018, the State Law Capacity increased from \$111,568,711,072 on August 31, 2017 to \$118,511,255,268 on August 31, 2018 (but at such date the IRS Limit was lower, \$117,318,653,038, so it is the currently effective capacity limit for the Fund).

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of February 27, 2019 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.85%. As of June 10, 2019, there were 181 active open-enrollment charter schools in the State and there were 764 charter school campuses operating under such charters (though as of such date, 15 of such campuses have not begun 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 purposes 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 April 30, 2019, the amount of outstanding bond guarantees represented 69.90% of the IRS Limit (which is currently the applicable capacity limit) for the Guarantee Program (based on unaudited data). SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.85% in February 2019. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE determined not to implement a previously approved the 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 April 30, 2019, the Charter District Reserve Fund represented approximately 0.87% 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, under current law, open-enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. 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. At April 30, 2019, the Charter District Reserve Fund contained \$14,743,830.

Potential Impact of Hurricane Harvey on the PSF

Hurricane Harvey struck coastal Texas on August 26, 2017, resulting in historic levels of rainfall. The Governor designated the impacted area for disaster relief, and TEA believes that the storm impacted more than 1.3 million students enrolled in some 157 school districts, and approximately 58,000 students in 27 charter schools in the designated area. Many of the impacted school districts and two charter districts have bonds guaranteed by the PSF. It is possible that the affected districts will need to borrow to repair or replace damaged facilities, which could require increased bond issuance and applications to the TEA for PSF bond guarantees. In addition, the storm damage and any lingering economic damage in the area could adversely affect the tax base (for school districts) and credit quality of school districts and charter districts with bonds that are or will be guaranteed by the PSF.

Legislation was approved during the 86th Session that provides supplemental appropriations to the TEA in amounts of \$535,200,000 and \$636,000,000 for the fiscal biennia ending August 31, 2019 and August 31, 2021, respectively. Those appropriations are designated for use as

an adjustment to school district property values and reimbursement for disaster remediation costs as a result of Hurricane Harvey. That legislation also included a reimbursement to the TEA in the amount of \$271,300,000 for costs previously incurred by the TEA for increased student costs, the reduction in school district property values and other disaster remediation costs stemming from Hurricane Harvey. For fiscal year 2018, TEA initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

Many of the school districts and two charter districts in the designated disaster area have bonds guaranteed by the PSF. TEA notes that no district has applied for financial exigency or failed to timely pay bond payments as a result of the hurricane or otherwise. The PSF is managed to maintain liquidity for any draws on the program. Moreover, as described under "The School District Bond Guarantee Program" and "The Charter District Bond Guarantee Program," both parts of the Bond Guarantee Program operate in accordance with the Act as "intercept" programs, providing liquidity for guaranteed bonds, and draws on the PSF are required to be restored from the first State money payable to a school district or a charter district that fails to make a guaranteed payment on its bonds.

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 - Ratings" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2014	\$ 27,596,692,541	\$ 38,445,519,225
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 ⁽²⁾	33,860,358,647	44,074,197,940

⁽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, 2018, 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, \$238.8 million, \$2,983.3 million, \$7.5 million, and \$4,247.3 million, respectively, and market values of approximately \$2,022.8 million, \$661.1 million, \$3,126.7 million, \$4.2 million, and \$4,247.3 million, respectively. At April 30, 2019, the PSF had a book value of \$34,917,398,274 and a market value of \$-44,978,512,134. April 30, 2019 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2014	\$ 58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023
2018	79,080,901,069 ⁽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, 2018 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$126,346,333,815, of which \$47,265,432,746

represents interest to be paid. As shown in the table above, at August 31, 2018, there were \$79,080,901,069 in principal amount of bonds guaranteed under the Guarantee Program, and using the IRS Limit at that date of \$117,318,653,038 (the IRS Limit is currently the lower of the two federal and State capacity limits of Program capacity), 97.35% of Program capacity was available to the School District Bond Guarantee Program and 2.65% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended <u>8/31</u>	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>	No. of <u>Issues</u>	Principal <u>Amount</u>
2014 ⁽²⁾	2,869	\$ 58,061,805,783	10	\$ 302,545,000	2,879	\$ 58,364,350,783
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⁾	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069

⁽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⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

⁽³⁾ At April 30, 2019 (based on unaudited data, which is subject to adjustment), there were \$82,005,532,177 of bonds guaranteed under the Guarantee Program, representing 3,269 school district issues, aggregating \$80,311,477,177 in principal amount and 46 charter district issues, aggregating \$1,694,055,000 in principal amount. At April 30, 2019, the capacity allocation of the Charter District Bond Guarantee Program was \$3,265,722,717 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2018

The following discussion is derived from the Annual Report for the year ended August 31, 2018, 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, when filed, 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, 2018, 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 2018, the Fund balance was \$44.0 billion, an increase of \$2.6 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. 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, 2018, were 7.23%, 7.68% and 6.92%, 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) real assets, including cash, were 8.69%, 7.78%, and 4.23%, 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, 2018, 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, 2018, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$4.2 billion and capital commitments to private equity limited partnerships for a total of \$5.2 billion. Unfunded commitments at August 31, 2018, totaled \$1.5 billion in real estate investments and \$2.1 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, 2018, the remaining commitments totaled approximately \$2.6 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 19.83%, 23.95%, 3.51%, and -1.07%, respectively, during the fiscal year ended August 31, 2018. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of -0.78% during the fiscal year and absolute return investments yielded a return of 6.66%. The PSF(SBOE) real estate and private equity investments returned 12.01% and 15.94%, respectively. Risk parity assets produced a return of 3.43%, while real return assets yielded 0.70%. Emerging market debt produced a return of -11.40%. Combined, all PSF(SBOE) asset classes produced an investment return of 7.23% for the fiscal year ended August 31, 2018, out-performing the benchmark index of 6.89% by approximately 34 basis points. All PSF(SLB) real assets (including cash) returned 8.69% for the fiscal year ending August 31, 2018.

For fiscal year 2018, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$4.0 billion, a decrease of \$1.4 billion from fiscal year 2017 earnings of \$5.4 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2018. In fiscal year 2018, 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 17.1% for the fiscal year ending August 31, 2018. 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 2017 and 2018, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.2 billion, respectively. There were no contributions to the ASF by the SLB in fiscal years 2017 and 2018.

At the end of the 2018 fiscal year, PSF assets guaranteed \$79.1 billion in bonds issued by 858 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 7,242 school district and charter district bond issues totaling \$176.4 billion in principal amount. During the 2018 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program remained flat at 3,293. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$4.8 billion or 6.5%. The State Capacity Limit increased by \$6.9 billion, or 6.2%, during fiscal year 2018 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Program increased by only \$5.7 billion, or 5.2%, during fiscal year 2018 as the IRS Limit was reached during the fiscal year, and it is the lower of the two State and federal capacity limits for the Program.

2011 Constitutional Amendment

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3%, 3.5% and 3.7% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015, 2016-2017 and 2018-2019, respectively. In November 2018, the SBOE approved a \$2.2 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 transfer \$10 million to the PSF in fiscal year 2020 and \$45 million in fiscal year 2021.

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

The constitutional amendments approved on November 8, 2011 also provide 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 Fund to determine whether to transfer an amount each year from Fund assets to the ASF revenue derived from such land or properties, with the amount transferred limited to \$300 million. Any amount transferred to the ASF by an entity other than the SBOE is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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, 2018, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Finance System was "undeniably imperfect". While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW . . . During the 2019 legislative session, the Texas Legislature made numerous changes to the Finance System, including particularly those contained in House Bill 3 ("HB 3"). In some instances, the provisions of HB 3 will require further interpretation by the District and TEA. The District is still in the process of (a) analyzing the provisions of HB 3 and (b) monitoring the on-going guidance provided by TEA. The information contained herein reflects the District's understanding of HB 3 based on information available to the District as of the date of this Official Statement, which is subject to change.

The following language constitutes only a summary of the 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 district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not levy surplus M&O taxes for the purpose of paying debt service on bonds. A district is authorized to levy their M&O tax at a constitutionally-mandated and voter-approved rate of up to \$1.50 per \$100 of taxable value in the district. 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, districts may levy a tax sufficient to pay debt service on such bonds unlimited as to rate or amount. Because property values vary widely among school districts, the amount of local funding generated among school districts for the same tax rate is also subject to wide variation.

Prior to the 2019 Legislative Session, a district's maximum M&O tax rate for a given tax year was determined by multiplying that district's 2005 M&O tax rate levy by a compression percentage set by legislative appropriation or, in the absence of legislative appropriation, by the Commissioner of Education. 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. 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 district, by up to \$0.17 above the compressed rate (for most districts, between \$1.04 and \$1.17 per \$100 of taxable value). District's received additional State funds in proportion to such taxing effort.

LOCAL FUNDING FOR SCHOOL DISTRICTS . . . The 86th Texas Legislature made several significant changes to the funding methodology for school districts. It orders a district's M&O tax rate into two distinct parts: the Tier One Tax Rate and the Enrichment Tax Rate, and applies a legislatively-appropriated State Compression Percentage (each term as described below) or a higher rate of compression, as appropriate.

State Compression Percentage. The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is necessary to receive the full amount of State aid. The State Compression Percentage is set at 93% per \$100 of taxable value for the 2019-2020 school year, effectively setting the fiscal year 2019-2020 Tier One Tax Rate for most school districts at \$0.93 cents. In the 2020-2021 school year, the State Compression Percentage is anticipated to decline, based on statewide average property value growth, to 91.65%. It will decline further in future years if statewide average property values grow at a rate that is greater than 2.5%.

Tier One Tax Rate. For school year 2019-2020, the Tier One Tax Rate is defined as the lesser of the State Compression Percentage multiplied by \$1.00 or the total number of cents levied by the district for the 2018-2019 school year for M&O (excluding tax rate increases in response to declared disasters as described below), multiplied by the State Compression Percentage. Beginning with the 2020-2021 school year, a district must reduce its compression percentage to a rate lower than the State Compression Percentage if the taxable value in the district has increased by more than 2.5% over the prior year.

Enrichment Tax Rate. The Enrichment Tax Rate is defined as any tax effort in excess of the Tier One Tax Rate and less than \$1.17. The Enrichment Tax Rate is divided into two components, commonly known as “Golden Pennies” and “Copper Pennies”. Golden Pennies refer to the first eight cents of taxing effort above the Tier One Tax Rate. Copper Pennies refer to any taxing effort above the sum of the Tier One Tax Rate and Golden Pennies, but less than or equal to the sum of (1) \$0.17, plus (2) the product of the State Compression Percentage, multiplied by \$1.00. For the 2019-2020 tax year, this maximum value for most districts is \$1.10.

Districts are entitled to a guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated) for each Golden Penny or Copper Penny levied in addition to the Tier One Tax Rate. However, in years for which the guaranteed yield per Copper Penny is increased, a district may be required to reduce its M&O tax rate for that school year if it levies Copper Pennies (see “Wealth Transfer Provisions – Tier Two Funding” below).

STATE FUNDING FOR SCHOOL DISTRICTS . . . State funding for school districts is provided through the Foundation School Program, which provides each district with a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being 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 per student is revised downward if a district’s Tier One Tax Rate does not meet or exceed a State-determined threshold (currently \$0.93 per \$100 of taxable value). This Basic Allotment is supplemented by additional State funds, allotted based upon the unique district characteristics and demographics of students in ADA, to make up most of a district’s basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program.

Tier One is then “enriched” with additional funds known as “Tier Two” of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of a district’s Enrichment Tax Rate, which is the M&O tax effort that exceeds the Tier One Tax Rate. The Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding 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 districts. In 2019, the 86th Texas Legislature appropriated funds in the amount of \$1,323,444,300 for the 2020-2021 State fiscal biennium 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 districts, with local M&O taxes representing the district’s local share. EDA and IFA allotments supplement a district’s local I&S taxes levied for debt service on eligible bonds issued to construct, acquire and improve facilities. Tier One and Tier Two allotments and EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2020-21 State fiscal biennium and debt service assistance on district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

Tier One allotments are intended to provide all districts a basic level of education necessary to meet applicable legal standards. Tier Two allotments are intended to guarantee each district that is not subject to the wealth transfer provisions described below an opportunity to supplement Tier One at a level of its own choice; however, Tier Two allotments may not be used for the payment of debt service or capital outlay.

As described above, Tier One funding is based on an allotment per student known as the “Basic Allotment”. For the 2020-21 State fiscal biennium, the Basic Allotment for districts with an M&O tax rate of at least \$0.93 cents is \$6,160 for each student in ADA and is revised downward for districts with a lower M&O tax rate. The Basic Allotment is then supplemented for all districts by various weights to account for differences among 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 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 districts in the top 25% of enrollment growth relative to other districts), and (iii) a college, career and military readiness allotment to further Texas’ goal of increasing the number of student who attain post-secondary education or workforce credential. The sum of a district’s Basic Allotment and all statutory adjustments, divided by \$6,160, is that district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of State and local funds per cent of tax effort) depending on the district’s Enrichment Tax Rate. The first eight cents of tax effort that exceeds a district’s Tier One Tax Rate (Golden Pennies) will 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 96th percentile of wealth per student in WADA, or (ii) the Basic Allotment multiplied by 0.016 per student in WADA per cent of tax effort. For the 2020-21 State fiscal biennium, the guaranteed yield will be \$98.56 per WADA per cent of tax effort above \$0.93 up to \$1.01 per \$100 taxable value.

The second level of Tier Two is generated by tax effort that exceeds the district's Tier One Tax Rate plus eight cents (Copper Pennies) and has a guaranteed yield per cent per WADA of the Basic Allotment multiplied by 0.008. For the 2020-2021 State fiscal biennium, the guaranteed yield will be \$49.28 per WADA per cent of tax effort above \$1.01, up to eleven cents of tax effort.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the IFA program and the EDA program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA 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 the new IFA awards are available, a 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 district may be awarded is limited to the lesser of (1) the actual debt service payments made by the 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 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. The 86th State Legislature did not appropriate any funds for new IFA awards for the 2020-2021 State fiscal biennium; 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. Until recently, the EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 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 districts would have been entitled to if the EDA Yield were \$35. The yield for the 2019-2020 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, and (ii) the 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 district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 86th Texas Legislature appropriated funds in the amount of \$100,000,000 for each of the 2019-2020 and 2020-2021 State fiscal years for NIFA allotments.

WEALTH TRANSFER PROVISIONS AND FUNDING EQUITY. . . Some school districts in Texas have sufficient property wealth per student in WADA to generate their statutory level of funding through collections of local property taxes alone. Certain districts whose property tax base can generate local M&O revenues in excess of the State entitlement are subject to the wealth equalization provisions contained in Chapter 49, as amended, Texas Education Code ("Chapter 49"). For most Chapter 49 districts, wealth equalization entails a process known as "recapture", paying the portion of the district's local share in excess of the guaranteed yield to the State (for redistribution to other school districts) or otherwise expending M&O tax revenues for the benefit of students in districts that are not subject to Chapter 49.

In 2019, the 86th Texas Legislature adopted substantial changes to the wealth transfer provisions of the Texas Education Code. Whereas the recapture process had previously been based on the proportion of a district's assessed property value per student in WADA, recapture is now measured by the "local revenue level" (being the local share of the relevant portion of the Foundation School Program) in excess of the entitlements appropriated by the Legislature each fiscal biennium. Therefore, 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.

Tax Rate and Funding Equity. The Texas Commissioner of Education (the "Commissioner") may adjust a district's funding entitlement if the funding formulas used to determine the district's entitlement result in an unanticipated loss or gain for a 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. Further, current law include a mechanism designed to ensure that districts can have no greater than a 10% difference in maximum compressed tax rates for the 2020-2021 school year and beyond.

Additionally, the Commissioner may proportionally reduce the amount of funding a district receives under the Finance System and the ADA calculation if the 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 district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a district's attendance.

Furthermore, "property-wealthy" school districts which received additional State funds under the prior State funding regime 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 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.

Recapture. Similar to prior law, certain districts generating local revenue in excess of the statutorily guaranteed State and local funding levels (each a “Chapter 49 district”) must pay the surplus local revenue in excess of entitlement to the State for redistribution to other school districts or directly to other school districts with a local revenue level that does not generate local funds sufficient to meet the statutory level of funding. Chapter 49 districts must exercise certain options, described in more detail below, in order to reduce “their local revenue level in excess of entitlement”, as determined by formulas set forth in Section 48.257 of the Texas Education Code.

Tier One Funding. In the 2020-2021 State fiscal biennium, the guaranteed level of State and local funds varies for each component of a district’s M&O tax rate. Generally, a district’s Tier One Tax Rate (as the equivalent of the State Compression Percentage) is set at 93% or lower by appropriation, multiplied by \$1.00 per \$100 of property valuation (except for districts taxing at a rate of less than \$1.00 for the 2018-2019 school year). The Tier One Tax Rate for such districts for the 2019-2020 school year would be the State Compression Percentage applied to the number of cents levied by the district for the 2018-2019 school year.) Revenue from this tax rate, combined with any state aid in Tier One, generate the district’s total Tier One entitlement. Revenue in excess of the local share of Tier One is returned to the State in the form of recapture.

Tier Two Funding. Under current law, the Golden Pennies of a district’s Enrichment Tax Rate will 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 96th percentile of wealth per student in WADA, or (ii) 160% of the Basic Allotment per student in WADA at such district. The local revenue generated from a district’s Golden Pennies are generally not subject to recapture; however, in years where an amount less than the guaranteed yield for Golden Pennies described in clauses (i) and (ii) is appropriated, a district must remit to the State any revenue generated from its Golden Pennies above the guaranteed yield appropriated in that year.

The Copper Pennies of a district’s Enrichment Tax Rate generate a guaranteed yield equal the Basic Allotment for the 2020-2021 State fiscal biennium times 0.008. For a school year in which a district’s guaranteed yield for its Copper Pennies per student in WADA exceeds the guaranteed yield per student in WADA for the preceding school year, a district would be required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per cent per student in WADA in school year 2019-2020 to \$49.28 per cent per student in WADA requires districts to compress their levy of Copper Pennies by a factor of 0.64834.

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

Furthermore, a 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 district fails to exercise a permitted option, the Commissioner must reduce the district’s local revenue level to the level that would product its guaranteed entitlement, by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district’s existing debt.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

The District’s wealth per student for the 2019-2020 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district’s wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted level in future school years, it will 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.

INVESTMENT POLICIES

Investments

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board of Trustees of the District. Both State law and the District's investment policies are subject to change.

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the District with respect to the certificates of deposit issued for the account of the District; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the District with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the District has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has taken the steps necessary to allow for investing in corporate bonds but has not made any investments in that type of instrument.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

Under State law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the District; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

As of June 10, 2019 the District had the following investments:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash and Deposits	\$12,988,201.65	12.70%
Agencies, T-Notes, Commercial Paper, Treasury, Munis	41,325,349.06	40.38%
TexPool and Lonestar	<u>48,018,759.90</u>	<u>46.92%</u>
Total	<u>\$102,332,310.61</u>	<u>100.00%</u>

(1) Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the District) include property owned by the State or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; \$10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated \$25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below herein); and certain classes of intangible property. The Tax Code provides that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was 55 or older when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" herein). The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value. Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit", defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport or goods-in-transit exemptions for tangible personal property. Senate Bill 1, passed by

the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" and "APPENDIX A – Financial Information for the Southwest Independent School District – Table 1 – Assessed Valuation" for a schedule of the amount of exemptions granted by the District.

A city or county may create a tax increment financing zone ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits cities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district's property value wealth per student for (1) the appraisal value, in excess of the "frozen" value, of property that is located in a TIF created after May 31, 1999 (except in certain limited circumstances where the city creating the TIF gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the TIF of its intention to create the TIF and the TIF was created and had its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993.

Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate (see "AD VALOREM TAX PROCEDURES – Public Hearing and Maintenance and Operations Tax Rate Limitations").

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence 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 residence homestead for a tax year to an amount that would not exceed either the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property.

Article VII of the Texas Constitution and the Tax Code permit land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation. The same land may not be qualified under both section 1-d and Section 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. The District, at its expense, has the right to obtain from the Appraisal District current estimates of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimates of appraisal values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal rolls.

Residential Homestead Exemptions

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision.

Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. Effective until December 31, 2019, the governing body of a political subdivision that adopted such exemption for the 2014 tax year (fiscal year 2015) is prohibited from repealing or reducing the amount of such exemption.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM".

A partially disabled veteran or the surviving spouse of a partially disabled veteran, if such spouse has not remarried since the death of the disabled veteran and the property was the residence homestead of the surviving spouse when the disabled veteran died and remains the residence homestead of the surviving spouse, is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Additionally, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption from taxation of the total appraised value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

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. By the later of September 30th or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation must be set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. 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 from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Certain taxpayers, including the disabled, persons 65 years or older and disabled veterans, who qualified for certain tax exemptions are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims 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. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to past petition tax years unless relief is sought and granted by the bankruptcy judge. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, 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, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Bexar Appraisal District (the "Appraisal District") has the responsibility for appraising property in the Southwest Independent School District as well as other taxing units in Bexar County. The Appraisal District is governed by a board of five directors appointed by members of the governing bodies of various political subdivisions within Bexar County. Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

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

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

The District does allow split payments of taxes.

The District does not give discounts for early payment of taxes.

The District does not participate in a tax increment-financing zone.

The District does grant tax abatements.

The District does not grant the additional local option exemption of 20% of market value of residence homesteads plus \$15,000.

The District does not grant a local option homestead exemption of \$10,000 for taxpayers who are at least 65 years of age.

The District does not grant an additional exemption of \$10,000 for disabled taxpayers.

The District took official action before April 1, 1990 to tax Freeport Property. The District took official action on November 15, 2011 to continue the taxation of all goods-in-transit for the tax year 2012 and beyond.

TAX RATE LIMITATIONS

School District Taxes

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on December 11, 1999 under Section 45.003, Texas Education Code.

The maximum M&O tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50, or (B) the sum of the Tier One Tax Rate and Enrichment Tax Rate. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts". Furthermore, a school district cannot annually increase its tax rate in excess of the district's "voter-approval tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "TAX RATE LIMITATIONS – Public Hearing and Maintenance and Operations Tax Rate Limitations" herein.

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, Texas Education Code, as amended ("Section 45.0031"), requires a 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 district voters 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. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which

effectively reduces the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207 are not subject to the \$0.50 tax rate 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 \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, as amended, Texas Education Code as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate 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 Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

Public Hearing and Maintenance and Operations Tax Rate Limitations

During the 2019 legislative session, the Texas Legislature made numerous changes to the requirements for the levy and collection of ad valorem taxes and the calculation of defined tax rates, including particularly those contained in 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 analyzing how the provisions of HB 3 and SB 2 will be implemented, and the information contained herein reflects the District's understanding based on information available to the District as of the date of this Official Statement, which is subject to change. Reference is made to HB 3, SB 2 and the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

A school district's tax rate consists of two components: (1) its M&O tax rate for funding of maintenance and operations expenditures in the current year, and (2) its I&S tax rate for funding debt service in the current year. Under State law, the assessor for the district must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the district to the governing body of the district by August 1 or as soon as practicable thereafter.

In setting its tax rate for the 2019 tax year, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "voter-approval tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The voter-approval tax rate for a school district for the 2019 tax year is the sum of (A) the product of the district's State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district's M&O tax rate for the 2018 tax year, less the sum of (a) \$1.00 and (b) any amount by which the district is required to reduce its Enrichment Tax Rate or (ii) the rate of \$0.04, and (C) the district's I&S tax rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage").

With certain exceptions, if a district's voter-approval tax rate, after subtracting its I&S tax rate, for tax year 2019 is \$0.97 or more, the district may not adopt an M&O tax rate that exceeds its voter-approval tax rate for tax year 2019.

For the 2020 tax year, the voter-approval tax rate shall be calculated as provided in the preceding paragraph, except under unanimous vote of the governing body of a school district, the amount in (B)(ii) above may be increased to the rate of \$0.05. In setting its annual tax rate for any subsequent years, the governing body of a school district generally cannot adopt a tax rate exceeding the district's voter-approval tax rate without approval by a majority of the voters voting at an election approving the higher rate. The voter-approval tax rate for a school district is the sum of (A) the product of the district's State Compression Percentage for that year multiplied by \$1.00, (B) the greater of (i) the district's Enrichment Tax Rate for the preceding tax year, less the rate (if any) by which it must compress its Copper Pennies for the current year, or (ii) the rate of \$0.05, and (C) the district's I&S tax rate for the current tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "State Compression Percentage", "Enrichment Tax Rate", and compression of Copper Pennies).

The calculation of the "voter-approval tax rate" does not limit or impact the District's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the District's tax-supported debt obligations, including the Bonds.

The governing body of a district must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a district fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the district for the preceding tax year.

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 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 district if the 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 district delivers substantially all of its tax bills. A district may adopt its budget after

adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A 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.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay new debt secured by the district's debt service tax from a tax rate of \$0.50. The Bonds are issued as "new debt" and are subject to this limitation. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

EMPLOYEES' BENEFITS, PENSION PLAN, AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For fiscal year ended August 31, 2018, the District made a contribution of \$1,502,770.01 to TRS on a portion of its employees' salaries that exceeded the statutory minimum. The District does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note L- Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as APPENDIX D (the "Financial Statements").

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the District pertaining to the use, expenditure and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owner thereof for federal income taxes from the date of the issuance of the Bonds.

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will file with the MSRB through EMMA annually certain updated financial information and operating data. The information to be updated includes the quantitative financial information and operating data with respect to the District of the general type included in this Official Statement as Table 1, in “APPENDIX A—Financial Information for the Southwest Independent School District” (Tables 1-9) and in APPENDIX D.

The District will update and provide this information within six months after the end of each fiscal year ending in or after 2019. The District will provide the updated information to the MSRB in a designated electronic format, which will be available through EMMA to the general public without charge.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB through EMMA with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in

accordance with the accounting principles described in the District's annual financial statements 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 August 31. Accordingly, it must provide updated information by the last day in February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change with EMMA.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a Financial Obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of 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 (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District 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) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

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

Limitations and Amendments

The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that 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 and 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 the agreement, as amended, would have permitted underwriters 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 either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or 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 underwriters 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 Undertakings

During the past five years, the District has complied in all material respects with its continuing disclosure agreements undertaken in accordance with the Rule.

LEGAL MATTERS

Legal Opinions

The delivery of the Bonds is subject to the approval of the State Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and the approving legal opinion of Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. In addition, Bond Counsel will furnish the Underwriters with its opinion that, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel opinion is attached hereto as APPENDIX C. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel has reviewed the information in this Official Statement appearing under the captions and subcaptions "THE BONDS" (except for the information under the subcaptions "Permanent School Fund Guarantee," the fourth paragraph under "Notice of Redemption and DTC Notices," "Payment Record," "Use of Bond Proceeds", and "Sources and Uses of Funds", as to which no opinion is expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the sub-caption "Compliance With Prior Undertakings," as to which no opinion is expressed), and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last sentence of the second paragraph under the subcaption "Legal Opinions" and information under the subcaption "Litigation," as to which no opinion is expressed), "TAX MATTERS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale," and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. Certain legal matters will be passed upon for the Underwriters by their counsel Escamilla & Poneck, LLP, San Antonio, Texas, whose fee is contingent on the sale and delivery of the Bonds.

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

Litigation

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

On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed in this Official Statement, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION - Ratings" herein. In addition, various provisions of the

Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to sure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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.

Ratings

S&P Global Ratings ("S&P") has assigned a rating of "AAA" to the Bonds based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. S&P has assigned an unenhanced, underlying rating of "AA-". (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representation as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of said company, circumstances so warrant. Any such downward revisions or withdrawals of the rating may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Order. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

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

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer'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 Issuer. 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the Issuer at a price of \$75,283,757.25 (representing the par amount of the Bonds of \$72,790,000.00, plus a reoffering premium of \$2,880,497.25, less an Underwriters' discount of \$386,740.00), plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds in the amount of \$127,004.24.

The Underwriters' obligation is 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 prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following statement for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibility to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Underwriters will be furnished a certificate, executed by proper officers of the District, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement 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 the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District, since the date of the last financial statements of the District appearing in the Official Statement.

Concluding Statement

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

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

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, SEC Rule 15c2-12.

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

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT

/s/ Mike C. Frazier
President, Board of Trustees
Southwest Independent School District

/s/Ida Sudolcan
Secretary, Board of Trustees
Southwest Independent School District

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APPENDIX A

FINANCIAL INFORMATION FOR THE SOUTHWEST INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2019 Certified Market Value of Taxable Property (100% of Market Value).....	\$ 4,722,744,283
Less Exemptions:	
\$25,000 Homestead Exemption.....	\$ 241,244,045
\$10,000 Over-65/Disabled Homestead.....	31,553,096
Disabled and Deceased Veterans' Exemptions.....	57,509,569
Productivity Loss.....	313,037,096
Pollution Control.....	49,710,748
10% Residential Cap.....	<u>78,890,944</u>
TOTAL EXEMPTIONS	771,945,498
2019 Certified Assessed Value of Taxable Property.....	<u>\$ 3,950,798,785</u> *

* Includes frozen taxable value of \$199,355,546.

Source: Bexar Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of July 1, 2019)

General Obligation Debt Outstanding:

Unlimited Tax Refunding Bonds, Series 2005.....	\$ 6,110,000
Unlimited Tax Refunding Bonds, Series 2010.....	1,225,000
Unlimited Tax School Building Bonds, Series 2013.....	70,208,289
Unlimited Tax School Building and Refunding Bonds, Series 2014.....	83,205,000
Unlimited Tax Refunding Bonds, Series 2016.....	14,140,000
Unlimited Tax School Building and Refunding Bonds, Series 2016.....	30,310,000
Unlimited Tax Refunding Bonds, Series 2017	8,074,982
The Bonds	<u>72,790,000</u>
<i>Total Unlimited Tax Debt Outstanding</i>	<u>\$ 286,063,272</u>

2019 Certified Net Assessed Valuation \$ 3,950,798,785

Ratio of Total Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation 7.24% ⁽¹⁾

District Population: Estimated 2019 - 63,458

Per Capita Certified Net Taxable Assessed Valuation - \$62,258.48

Per Capita Gross General Obligation Debt Principal - \$4,507.92

⁽¹⁾ Does not include State aid. See Table titled "INTEREST AND SINKING FUND MANAGEMENT INDEX" herein.

COMMITMENTS UNDER LEASES

TABLE 2

The District has the following commitments under operating (noncapitalized) lease agreements for equipment, which provide for minimum future rental payments as of August 31, 2018 as follows:

2019	\$ 348,951
2020	302,008
2021	302,008
2022	302,008
Thereafter	<u>-</u>
Total Minimum Rentals	<u>\$ 1,254,975</u>
Rental Expenditures for the	
Fiscal Year Ended 2017	<u>\$ 1,154,767</u>

Source: The Issuer's Annual Financial Report for the Fiscal Year Ended August 31, 2018.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8-31	Current Total	The Bonds			Combined	Projected	Total Net
	Outstanding Debt	Principal	Interest	Total	Debt Service	State Aid ^(a)	Debt Service
2019	\$ 16,946,363		\$ 177,669	\$ 177,669	\$ 17,124,031	\$ 5,498,875	\$ 11,625,156
2020	16,797,075	\$ 115,000	2,116,619	2,231,619	19,028,694	2,100,000	16,928,694
2021	16,862,413	600,000	2,284,550	2,884,550	19,746,963	2,179,268	17,567,695
2022	15,691,406	1,750,000	2,249,300	3,999,300	19,690,706	2,173,059	17,517,647
2023	15,703,100	1,800,000	2,196,050	3,996,050	19,699,150	2,173,991	17,525,159
2024	15,729,838	1,325,000	2,149,175	3,474,175	19,204,013	2,119,348	17,084,664
2025	15,736,288	1,740,000	2,094,500	3,834,500	19,570,788	2,159,825	17,410,962
2026	15,101,825	1,810,000	2,023,500	3,833,500	18,935,325	2,089,696	16,845,629
2027	15,100,425	1,895,000	1,939,925	3,834,925	18,935,350	2,089,699	16,845,651
2028	15,404,475	1,995,000	1,842,675	3,837,675	19,242,150	2,123,557	17,118,593
2029	15,397,150	2,075,000	1,761,675	3,836,675	19,233,825	2,122,638	17,111,187
2030	15,396,050	2,135,000	1,698,525	3,833,525	19,229,575	2,122,169	17,107,406
2031	15,405,850	2,200,000	1,633,500	3,833,500	19,239,350	2,123,248	17,116,102
2032	15,409,325	2,270,000	1,566,450	3,836,450	19,245,775	2,123,957	17,121,818
2033	15,399,125	2,340,000	1,497,300	3,837,300	19,236,425	2,122,925	17,113,500
2034	15,479,075	2,410,000	1,426,050	3,836,050	19,315,125	2,131,610	17,183,515
2035	15,478,200	2,485,000	1,352,625	3,837,625	19,315,825	2,131,688	17,184,137
2036	15,480,400	2,560,000	1,276,950	3,836,950	19,317,350	2,131,856	17,185,494
2037	13,417,625	2,635,000	1,199,025	3,834,025	17,251,650	1,903,886	15,347,764
2038	11,636,200	2,715,000	1,118,775	3,833,775	15,469,975	1,707,261	13,762,714
2039	12,385,600	2,800,000	1,036,050	3,836,050	16,221,650	1,790,216	14,431,434
2040	12,365,600	2,885,000	950,775	3,835,775	16,201,375	1,787,978	14,413,397
2041	12,350,500	2,970,000	862,950	3,832,950	16,183,450	1,786,000	14,397,450
2042	12,330,300	3,065,000	772,425	3,837,425	16,167,725	1,784,264	14,383,461
2043	12,310,100	3,155,000	679,125	3,834,125	16,144,225	1,781,671	14,362,554
2044	-	3,250,000	583,050	3,833,050	3,833,050	423,014	3,410,036
2045	-	3,350,000	484,050	3,834,050	3,834,050	423,124	3,410,926
2046	-	3,455,000	381,975	3,836,975	3,836,975	423,447	3,413,528
2047	-	3,560,000	276,750	3,836,750	3,836,750	423,422	3,413,328
2048	-	3,665,000	168,375	3,833,375	3,833,375	423,050	3,410,325
2049	-	3,780,000	56,700	3,836,700	3,836,700	423,417	3,413,283
Total	\$ 369,314,306	\$ 72,790,000	\$ 39,857,063	\$ 112,647,063	\$ 481,961,369	\$ 56,798,160	\$ 425,163,210

^(a) State Aid calculated at 10.65% on existing debt. The amount of State Aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement for a description of the Instructional Facilities Allotment Program and Existing debt allotment program. State Aid, shown above, is based upon State payments of 10.65% of the annual debt service payment.

TAX ADEQUACY

2019 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$	3,751,443,239
Maximum Projected Annual Net Debt Service Requirements (Fiscal Year Ending 8-31-2021)		\$ 17,567,695
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Net Debt Service requirements	\$	0.477849

* Includes the Bonds.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2018	\$	1,589,067
2018 Interest and Sinking Fund Tax Levy at 98% Collections produce		13,623,610
Plus: Instructional Facilities Allotment		2,466,690
Plus: Existing Debt Allotment		3,032,185
Total Available for General Obligation Debt	\$	20,711,552
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 8/31/2019		17,124,031
Estimated Surplus at Fiscal Year Ending 8/31/2019	\$	3,587,521

⁽¹⁾ Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

⁽²⁾ The amount of State Aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement for a description of the Instructional Facilities Allotment Program and Existing debt allotment program. State Aid, shown above, is based upon State payments of 10.65% of the annual debt service payment.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 3

	2019	% of Total	2018	% of Total	2017	% of Total
Real, Residential, Single-Family	\$ 2,051,524,056	43.44%	\$ 1,849,373,740	39.72%	\$ 1,665,004,769	42.24%
Real, Residential, Multi-Family	9,455,395	0.20%	4,326,995	0.09%	9,540,015	0.24%
Real, Vacant Lots/Tracts	75,331,332	1.60%	71,303,164	1.53%	70,265,285	1.78%
Real, Acreage (Land Only)	321,475,913	6.81%	308,848,607	6.63%	294,076,597	7.46%
Real, Farm and Ranch Improvements	205,070,145	4.34%	178,188,882	3.83%	169,254,660	4.29%
Real, Commercial	466,694,819	9.88%	440,568,199	9.46%	385,319,672	9.78%
Real, Industrial	377,607,732	8.00%	360,100,234	7.73%	369,031,780	9.36%
Real, Minerals Oil and Gas	2,874,253	0.06%	2,645,379	0.06%	2,743,212	0.07%
Real & Tangible, Personal Utilities	47,242,054	1.00%	44,648,705	0.96%	43,146,840	1.09%
Tangible Personal, Commercial	290,312,300	6.15%	320,840,062	6.89%	220,493,336	5.59%
Tangible Personal, Industrial	793,822,032	16.81%	995,515,022	21.38%	633,672,470	16.08%
Tangible Personal, Mobile Homes	53,970,686	1.14%	51,351,932	1.10%	48,552,325	1.23%
Residential Inventory	12,562,436	0.27%	16,178,884	0.35%	19,193,872	0.49%
Special Inventory	14,801,130	0.31%	11,748,290	0.25%	11,252,760	0.29%
Total Appraised Value	\$ 4,722,744,283	100.00%	\$ 4,655,638,095	100.00%	\$ 3,941,547,593	100.00%
Less:						
\$25,000 Homestead Exemption	\$ 241,244,045		\$ 235,885,343		\$ 227,637,884	
\$10,000 Over-65/Disabled Homestead	31,553,096		29,504,370		27,966,899	
Disabled and Deceased Veterans'	57,509,569		47,397,989		38,133,384	
Productivity Loss	313,037,096		299,243,474		284,175,505	
Pollution Control	49,710,748		49,961,708		50,090,318	
10% Residential Cap	78,890,944		73,681,251		66,841,772	
Net Taxable Assessed Valuation	\$ 3,950,798,785		\$ 3,919,963,960		\$ 3,246,701,831	

Note: The above figures were taken from the State Property Tax Board Report of Property Value or Report of the Property Tax Division of the State Comptroller's Office which is compiled during the initial phase of the tax year. Actual value of taxable property and assessed valuation figures shown elsewhere in this Official Statement represent final year-end figures.

TAX DATA

TABLE 4

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2010	\$ 1,439,126,976	\$ 1.2561	\$ 18,076,874	94.41%	97.63%	8/31/2011
2011	1,510,629,683	1.2226	18,468,959	95.25%	99.11%	8/31/2012
2012	1,542,918,418	1.2730	19,641,351	95.42%	97.89%	8/31/2013
2013	1,825,477,349	1.4016	25,585,891	97.56%	101.75%	8/31/2014
2014	2,096,075,795 ⁽¹⁾	1.4653	30,713,799	98.18%	98.58%	8/31/2015
2015	3,067,249,855	1.4149	43,398,518	97.65%	98.92%	8/31/2016
2016	3,070,893,354	1.4730	45,234,259	97.46%	99.09%	8/31/2017
2017	3,246,701,831	1.4507	47,099,903	97.04%	97.84%	8/31/2018
2018	3,919,963,960	1.4730	57,741,069	95.17%	96.07%	8/31/2019 ⁽²⁾
2019	3,950,798,785					8/31/2020

⁽¹⁾ The valuation subject to taxation for M&O purposes was previously limited pursuant to a Tax Limitation Agreement entered into by the District and Toyota Motor Manufacturing Texas, Inc. ("Toyota"). Beginning with the 2015-16 fiscal year, the full value is subject to taxation by the District for all purposes.

⁽²⁾ Collections as of July 1, 2019.

TAX RATE DISTRIBUTION

TABLE 5

	2018	2017	2016 ⁽¹⁾	2015	2014
General Fund	\$ 1.11836	\$ 1.17000	\$ 1.17000	\$ 1.0400	\$ 1.0400
I & S Fund	0.35464	0.28070	0.30300	0.3749	0.4253
Total Tax Rate	\$ 1.47300	\$ 1.45070	\$ 1.4730	\$ 1.4149	\$ 1.4653

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Bexar Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 2016, and information supplied by the Issuer.

⁽¹⁾ The District held a successful tax ratification election on September 10, 2016.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2010-2019

TABLE 6

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2010-11	\$ 1,439,126,976	--	--
2011-12	1,510,629,683	71,502,707	4.97%
2012-13	1,542,918,418	32,288,735	2.14%
2013-14	1,825,477,349	282,558,931	18.31%
2014-15	2,096,075,795	270,598,446	14.82%
2015-16	3,067,249,855 ⁽¹⁾	971,174,060	46.33%
2016-17	3,070,893,354	3,643,499	0.12%
2017-18	3,246,701,831	175,808,477	5.72%
2018-19	3,919,963,960	673,262,129	20.74%
2019-20	3,950,798,785	30,834,825	0.79%

Source: Bexar Appraisal District.

⁽¹⁾ The valuation subject to taxation for M&O purposes was previously limited pursuant to a Tax Limitation Agreement entered into by the District and Toyota Motor Manufacturing Texas, Inc. ("Toyota"). Beginning with the 2015-16 fiscal year, the full value is subject to taxation by the District for all purposes.

Name	Type of Business/Property	2019 Net Taxable Assessed Valuation	% of Total 2019 Assessed Valuation
Toyota Motor Mfg Texas Inc	Automobile manufacturing	\$ 528,724,572	13.38%
Well Services a Div of Schlumberger Tech Corp	Oilfield Services	129,202,479	3.27%
Maruchan Texas Inc	Food Processing/Manufacturing	104,783,990	2.65%
Toytetsu Texas Inc	Automobile Manufacturing	60,603,430	1.53%
Toyoda Gosei Texas LLC	Plastic Manufacturing	51,015,370	1.29%
Gelco Corporation /Schlumberge	Oilfield Services	50,005,460	1.27%
Lex San An LP	Distribution Warehouse	49,405,070	1.25%
BV Carrier LP	Air Conditioning Manufacturing	40,629,890	1.03%
Union Pacific Railroad	Railroad	38,997,803	0.99%
Futaba Industrial Tx Corp	Manufacturing of Automobile Parts	29,464,280	0.75%
		<u>\$ 1,082,832,344</u>	<u>27.41%</u> ⁽¹⁾

Source: Bexar Appraisal District.

⁽¹⁾ As shown in the table above, the top ten taxpayers in the District account for in excess of 27% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in the Official Statement.

ESTIMATED OVERLAPPING DEBT INFORMATION

Taxing Body	Gross Debt (As of 7/1/2019)	% Overlapping	Amount Overlapping
Alamo Community Colleges	\$ 470,915,000	2.44%	\$ 11,490,326
Bexar County	1,898,620,000	2.44%	46,326,328
Bexar County Hospital District	840,300,000	2.44%	20,503,320
San Antonio, City of	1,845,100,000	2.32%	42,806,320
Von Ormy, City of	-	100.00%	-
Total Net Overlapping Debt			<u>\$ 121,126,294</u>
Southwest ISD			\$ 286,063,272 *
Total Gross Direct and Overlapping Debt			<u>\$ 407,189,566 *</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			10.31%
Per Capita Direct and Overlapping Debt			\$ 6,416.68 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

*Includes the Bonds.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS AND AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Governmental Subdivision	2018 Assessed Valuation	2018 Tax Rate	Date of Authorization	Purpose	Amount		Issued
					Authorized	To-Date	Unissued
Alamo CCD	\$ 164,661,746,655	\$ 0.149000	5/6/2017	College Facility	\$ 450,000,000	\$ 173,000,000	\$ 277,000,000
Bexar Co	161,131,453,490	0.301000	11/4/2003	Jail, Parks, Pub Safety	99,246,000	49,981,000	\$ 49,265,000
Bexar Co Hospital District	165,977,500,982	0.276000	None				
Von Ormy, City of	44,125,730	0.231000	None				
San Antonio, City of	114,652,832,752	0.558000	5/6/2017	Street and Bridge	445,263,000	131,304,273	313,958,727
				Flood Control	138,988,000	47,545,008	91,442,992
				Parks and Rec	187,313,000	62,223,630	125,089,370
				Library	24,025,000	6,773,493	17,251,507
				Public Safety	34,411,000	9,613,596	24,797,404
				Neighborhood Dev.	20,000,000	12,000,000	8,000,000
			5/12/2012	Street and Bridge	337,441,000	333,441,000	4,000,000
					<u>\$1,187,441,000</u>	<u>\$ 602,901,000</u>	<u>\$ 584,540,000</u>
Southwest ISD	3,919,963,960	1.473000	11/6/2018	School Buildings	75,000,000	75,000,000*	-*

*Includes the par amount of the Bonds plus a portion of the reoffering premium allocated against voted authorization.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 8

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	8/31/2018	8/31/2017	8/31/2016	8/31/2015	8/31/2014
Fund Balance - Beginning of Year	\$ 67,355,532	\$ 65,880,252	\$ 68,731,105	\$ 69,683,746	\$ 70,262,370
Revenues:					
Local and Intermediate Sources	39,463,445	38,600,072	33,482,347	23,988,033	22,719,921
State Sources	88,345,622	81,032,996	88,187,419	85,673,082	81,693,215
Federal Sources & Other	2,832,408	2,219,935	931,170	909,203	1,102,965
Total Revenues	<u>\$ 130,641,475</u>	<u>\$ 121,853,003</u>	<u>\$ 122,600,936</u>	<u>\$ 110,570,318</u>	<u>\$ 105,516,101</u>
Expenditures:					
Instruction	\$ 68,957,117	\$ 66,906,701	\$ 67,224,112	\$ 64,901,998	\$ 59,285,659
Instructional Resources & Media Services	2,236,420	2,313,711	2,265,785	1,988,041	1,827,660
Curriculum & Instructional Staff Development	1,074,084	1,098,549	1,192,801	1,129,340	768,729
Instructional Leadership	2,773,424	2,558,135	3,071,905	2,736,043	2,264,629
School Leadership	7,890,399	7,407,251	7,210,313	6,546,348	6,456,076
Guidance, Counseling & Evaluation Services	3,685,204	3,535,487	3,331,440	3,084,146	2,703,019
Social Work Services	1,318,173	1,178,272	1,120,602	831,432	747,203
Health Services	1,600,214	1,485,613	1,263,139	1,248,805	1,194,219
Student (Pupil) Transportation	5,206,029	4,931,353	4,272,622	4,147,057	4,402,648
Food Services	389,842	259,695	241,293	213,541	201,239
Cocurricular/Extracurricular Activities	4,411,247	5,303,032	3,478,737	2,631,672	2,447,647
General Administration	4,359,977	4,067,851	3,693,607	3,539,301	3,096,325
Plant Maintenance and Operations	13,813,884	12,982,039	12,050,243	11,789,301	11,914,151
Security and Monitoring Services	1,295,650	1,379,167	1,085,751	1,140,363	967,226
Data Processing Services	1,887,715	1,734,622	1,673,791	1,578,104	1,318,682
Community Services	351,548	316,528	338,431	296,122	355,454
Debt Service – Principal on long-term debt	8,000,000	-	-	-	-
Debt Service – Interest on long term debt	19,144	20,000	20,000	20,000	20,000
Debt Service – Bond Issuance Cost and Fees	1,200	3,600	4,400	4,000	3,600
Facilities Acquisition and Construction	1,361,924	2,514,494	11,562,155	3,784,188	6,266,175
Payments to Shared Service Arrangements	4,891	83,486	-	-	-
Payments to Juvenile Justice Alternative Ed. Prog.	-	36,000	120,906	69,419	49,449
Other Intergovernmental Charges	202,352	262,137	229,756	195,824	167,162
Total Expenditures	<u>\$ 130,840,438</u>	<u>\$ 120,377,723</u>	<u>\$ 125,451,789</u>	<u>\$ 111,875,045</u>	<u>\$ 106,456,952</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (198,963)</u>	<u>\$ 1,475,280</u>	<u>\$ (2,850,853)</u>	<u>\$ (1,304,727)</u>	<u>\$ (940,851)</u>
Other Financing Sources and (Uses):					
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	(4,000,000)	-	-	-	-
Special Item Resource	-	-	-	-	-
Special Item	-	-	-	352,086	362,227
Total Other Financing Sources and (Uses)	<u>\$ (4,000,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 352,086</u>	<u>\$ 362,227</u>
Net Change in Fund Balance	<u>\$ (4,198,963)</u>	<u>\$ 1,475,280</u>	<u>\$ (2,850,853)</u>	<u>\$ (952,641)</u>	<u>\$ (578,624)</u>
Fund Balance - End of Year	<u>\$ 63,156,569*</u>	<u>\$ 67,355,532</u>	<u>\$ 65,880,252</u>	<u>\$ 68,731,105</u>	<u>\$ 69,683,746</u>

Source: The Issuer's Annual Financial Reports.

* The District anticipates having an unaudited 2019 General Fund balance of approximately \$63,000,000. The District plans to adopt a balanced budget for the fiscal year ending August 31, 2020.

Plan Description. The Southwest Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer rates for fiscal years 2016 and 2017.

Contribution Rates

	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Southwest ISD 2018 Employer Contributions	\$	3,094,205
Southwest ISD 2018 Member Contributions	\$	7,100,321
Southwest ISD 2018 NECE On-Behalf Contributions	\$	4,170,255

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

- On the portion of the member's salary that exceeds the statutory minimum of 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, or a privately sponsored source.

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

* When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge

*When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all employees.

Actuarial Assumptions. The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized on the following page.

PENSION PLAN (CONTINUED)

TABLE 9

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	100%		8.7%

* 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 if the discount rate used was 1% less than a 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 51,157,810	\$ 30,346,267	\$ 13,017,279

PENSION PLAN (CONTINUED)

TABLE 9

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, Southwest Independent School District reported a liability of \$30,346,267 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Southwest Independent School District. The amount recognized by Southwest Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Southwest Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 30,346,267
State's proportionate share that is associated with the District	<u>40,770,717</u>
Total	<u>\$ 71,116,984</u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017, the employers proportion of the collective net pension liability was 0.0949073782% which was an increase of 0.0012946304% from its proportion measured as of August 31, 2016.

Changes since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, Southwest Independent School District recognized pension expense of \$3,109,828 and revenue \$3,109,828 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2018, Southwest Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experience	\$ 443,980	\$ 1,636,534
Changes in actuarial assumptions	1,382,321	791,346
Net difference between projected and actual investment earnings	-	2,211,570
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	4,925,784	2,358
Contributions paid to TRS subsequent to the measurement date	<u>3,094,205</u>	<u>-</u>
Total	<u>\$ 9,846,290</u>	<u>\$ 4,641,808</u>

The net amounts of the employers balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized in

<u>Year Ended August 31</u>	Pension Expense <u>Amount</u>
2019	\$ 220,351
2020	2,157,432
2021	71,521
2022	(491,716)
2023	132,289
Thereafter	20,400

APPENDIX B

**GENERAL INFORMATION REGARDING THE SOUTHWEST INDEPENDENT SCHOOL DISTRICT
AND BEXAR COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING
SOUTHWEST INDEPENDENT SCHOOL DISTRICT**

Southwest Independent School District (the "District") is a political subdivision of the State of Texas located in Bexar County, Texas and was created at a special election April, 1962. It was formed by combining the Common School Districts of Medina, Von Ormy, Tinsley, Macdona and District No. 29 (Idlewild). Prior to becoming Southwest Independent School District, this combination was known as Southwest Rural High School District No. 29. The District is located in the southwest part of Bexar County adjoining the city limits of San Antonio located near Lackland Air Force Base. Approximately eight miles of Loop 410 (the "inner" loop surrounding the City of San Antonio), twelve miles of Loop 1604 (the "outer" loop surrounding the City of San Antonio) and sixteen miles of Interstate 35, lie within the District. A short section of U.S. 90 crosses the northern part of the District. This network of major roads, plus proximity to the City of San Antonio, are factors encouraging growth in the District. The total area of the District is approximately 115 square miles.

The District is within 30 minutes of the University of Texas at San Antonio (UTSA), Trinity University, Our Lady of the Lake University, St. Mary's University, the University of the Incarnate Word and Texas A&M, San Antonio. Downtown San Antonio and the Riverwalk, numerous malls, Seaworld and Fiesta Texas are easily accessible. Many new housing options are available with city services and amenities.

Faculty

Teachers in the District have an average of 10 years total teaching experience and 8 years experience in the District. Their experience is enhanced by the quality of their education; 33% of the teachers hold Master's degrees and 1% hold Doctorate degrees. The District employs a total of 923 teachers.

Other Employees

In addition to 923 teachers, the District employs 75 administrators, 185 professional support, 568 auxiliary personnel, and 130 educational aides.

School Facilities

Currently, the District is operating the following school facilities:

1	Alternative School
2	High Schools
4	Middle Schools
11	Elementary Schools

PRESENT SCHOOL FACILITIES

School	Capacity	Current Enrollment	Teachers
Southwest High School	3,500	1,981	112
Southwest Legacy High School	2,500	1,789	103
McNair Middle School	1,595	743	43
McAuliffe Middle School	1,450	755	49
Resnik Middle School	1,595	866	51
Southwest Elementary School	880	656	48
Sun Valley Elementary School	880	632	46
Indian Creek Elementary School	880	590	43
Bob Hope Elementary School	550	488	38
Sky Harbour Elementary School	880	601	49
Hidden Cove Elementary School	880	517	45
Big Country Elementary School	880	662	49
Scobee Middle School	1,565	890	50
Elm Creek Elementary School	880	715	51
Kriewald Road Elementary School	880	590	45
Spicewood Park Elementary School	880	504	46
Medio Creek Elementary School	880	633	47
Southwest CAST Stem High School	<u>1,100</u>	<u>137</u>	<u>8</u>
Totals	22,655	13,749	923

HISTORICAL ENROLLMENT

<u>Year</u>	<u>Enrollment</u>	<u>Change from Preceding Year</u>	
		<u>Increase/D ecrease</u>	<u>Percent</u>
2000-01	9,621	22	0.23%
2001-02	9,445	(176)	-1.83%
2002-03	9,640	195	2.06%
2003-04	9,684	44	0.46%
2004-05	9,727	43	0.44%
2005-06	9,950	223	2.29%
2006-07	10,458	508	5.11%
2007-08	10,983	525	5.02%
2008-09	11,410	427	3.89%
2009-10	11,531	121	1.06%
2010-11	11,815	284	2.46%
2011-12	12,459	644	5.45%
2012-13	13,024	565	4.53%
2013-14	13,319	295	2.27%
2014-15	13,528	206	1.55%
2015-16	13,692	164	1.21%
2016-17	13,890	(17)	-0.12%
2017-18	13,873	198	1.43%
2018-19	13,758	(115)	-0.83%

ENROLLMENT BY GRADE

<u>Grade</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
EC	40	39	51	56	55	37	53	42	51	63	81	71
P-K	252	322	358	349	428	407	441	450	450	566	560	609
K	904	915	861	893	933	1,017	966	948	940	866	867	829
1	933	935	995	959	1,008	1,016	1,097	1,041	1,012	973	881	907
2	926	950	912	987	970	1,018	1,045	1,097	1,041	1,023	993	905
3	886	947	929	939	1,011	1,013	1,035	1,065	1,121	1,032	1,063	1,002
4	856	875	974	942	949	1,053	1,016	1,039	1,081	1,123	1,061	1,072
5	845	867	877	951	983	994	1,075	1,044	1,089	1,097	1,137	1,081
6	788	865	878	894	1,018	1,034	967	1,040	1,050	1,111	1,040	1,086
7	828	821	857	875	918	1,049	1,023	972	1,040	1,073	1,124	1,037
8	836	840	823	896	905	945	1,082	1,051	959	1,091	1,068	1,134
9	1,000	1,009	965	845	950	986	1,005	1,126	1,118	1,056	1,193	1,196
10	728	831	772	873	827	933	967	972	1,043	1,025	972	1,094
11	530	563	677	726	815	765	822	852	897	968	958	840
12	631	631	602	630	689	757	725	789	800	823	875	895
Totals	<u>10,983</u>	<u>11,410</u>	<u>11,531</u>	<u>11,815</u>	<u>12,459</u>	<u>13,024</u>	<u>13,319</u>	<u>13,528</u>	<u>13,692</u>	<u>13,890</u>	<u>13,873</u>	<u>13,758</u>

THE CITY OF SAN ANTONIO

The City of San Antonio (the “City”) is a major metropolitan city with a population of 1,475,416. The City operates as a Council-Manager form of government. The City is divided into 10 council districts to ensure equal population distribution between all districts. Each district elects one person to sit on the City Council with the mayor elected on a city-wide basis. The City Manager is appointed by City Council and serves as the City’s chief administrative officer.

Services

The City provides services financed by user fees set at levels adequate to provide coverage for operating expenses and the payment of outstanding debt. These services include airport and solid waste management.

Electric and gas services are provided by CPS Energy (“CPS”). The City maintains and operates certain utilities infrastructure. CPS currently operates 19 non-nuclear electric generating units, four of which are coal-fired and 15 of which are gas fired. CPS is obligated to transfer a portion of its revenues to the City.

San Antonio Water System (“SAWS”) serves more than 1.6 million people in San Antonio and the surrounding areas. The Edwards Aquifer has been the sole source that SAWS has depended on. As a result of extensive planning and funding through the Water Supply Fee, SAWS has begun to diversify its water supply and is working to secure the City’s water future.

Education

In San Antonio and its surrounding area there are 15 independent school districts, which include over 430 schools and an approximate enrollment of over 300,000. Every school district in San Antonio is equipped with the tools and resources necessary to provide comprehensive instructional programs and services for all students. The City values higher education and offers a wide range of academic programs in and around San Antonio: the University of Texas at San Antonio, University of Texas Health Science Center – San Antonio, Alamo Colleges, Texas A&M University – San Antonio, Trinity University, St. Mary’s University, University of the Incarnate Word, Our Lady of the Lake University.

Economic

The City’s economy is made up of a variety of industries, convention and tourism, healthcare, government employment, financial services, and oil and gas.

These economic activities have made the City a continued top leisure and convention destination.

Labor Force Statistics ⁽¹⁾

	<u>2019</u> ⁽²⁾	<u>2018</u> ⁽³⁾	<u>2017</u> ⁽³⁾	<u>2016</u> ⁽³⁾
Civilian Labor Force	730,664	726,266	714,176	700,839
Total Employed	711,948	702,305	689,089	674,943
Total Unemployed	18,716	23,961	25,087	25,896
% Unemployment	2.6%	3.3%	3.5%	3.7%
Texas Unemployment	2.9%	3.9%	4.3%	4.6%

(1) Source: Texas Workforce Commission.

(2) As of May 2019.

(3) Average Annual Statistics.

BEXAR COUNTY

Bexar County (the “County”) was created in 1836 from Spanish municipality named for Duke de Bexar, a colonial capital of Texas. The County is located in south central Texas and is a component of the Metropolitan Statistical Area (“MSA”) of San Antonio. The San Antonio MSA is one of the nation’s largest MSAs and the third largest MSA in Texas. The principal city within the County is San Antonio, the county seat. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837.

Economic Factors

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County’s ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County’s growing population. As Bexar County has continued to add jobs it has also fared better than the nation with the current unemployment issues. Bexar County’s unemployment rate in April 2019 was 2.6%, down from 3.1%¹ the same month in 2018, and still well below the national unemployment rate in April 2019 of 3.6%.² Another economic factor attracting companies and families to the San Antonio area is the low cost of living. For metropolitan areas San Antonio is ranked among the lowest in cost of living with a composite score of 86.9, 13.1% below the national average.³ With one of the lowest cost workforces of any major cities in the United States, Bexar County is continually positioned to increase employment across various industries.

¹ <https://fred.stlouisfed.org/services/TXBEXA9URN>

² <https://data.bls.gov/timeseries/LNS4000000>

³ San Antonio EDF - <http://www.sanantonioedf.com/why-san-antonio/data>

Education

The County encompasses 19 independent school districts, which includes over 400 schools. Enrollment ranges anywhere from nearly 900 in Lackland ISD to over 91,000 in Northside ISD, the fourth largest independent school district in Texas. Students attend school districts in which they reside with no busing in effect. In addition, San Antonio has over 150 private and parochial schools at all education levels. San Antonio has 20 institutions of higher learning offering degrees in all major fields of study, many at the graduate level. Among universities, the University of Texas at San Antonio (UTSA) has over 30,000 students enrolled and has represented many first-time college students within their family. In May of 2009, the Texas A&M University San Antonio became the newest four-year college in San Antonio. Among junior colleges, Alamo Colleges includes five colleges, San Antonio, Palo Alto, St. Philips, Northeast Lakeview, and Northwest Vista, totaling over 60,000 students enrolled.

Year	School Enrollment(a)	University Enrollment(b)
2009	314,801	113,307
2010	324,015	119,283
2011	330,259	119,352
2012	338,933	119,710
2013	334,351	120,273
2014	344,548	119,482
2015	350,256	120,242
2016	354,665	115,582
2017	354,828	120,950
2018	349,692	123,808

Source: (a) Texas Education Agency

(b) Figures Represent Fall Enrollment for the calendar year

Electric and Gas Services

Electric and gas services to the Bexar County area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City of San Antonio (the “City”) that maintains and operates certain utilities infrastructure. This infrastructure includes a 16-generating unit electric system and the gas system that serves the Bexar County area. CPS also owns a 40% interest in the South Texas Project (“STP”) two existing nuclear generating Units 1 and 2 which generates 1,350 megawatts of power for CPS Energy customers. CPS operations and debt service requirements for capital improvements are paid from revenues received from charges to its customers.¹⁶

¹⁶ CPS Energy

Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City’s area has been the “Edwards Underground Water Reservoir” (the “Edwards Aquifer”) and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties, varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Bracketville, Kinney County, Texas, in the west and stretching to Kyle, Hays County, Texas, in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it. Much of the Edwards Aquifer region consists of agricultural land, but areas of population ranging from communities with only a few hundred residents to urban areas with well over one million citizens exist as well. The Edwards Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region.

Naturally occurring artesian springs, such as the Comal Springs and the San Marcos Springs, are fed with Edwards Aquifer water and are utilized for commercial, municipal, agricultural, and recreational purposes, while at the same time supporting ecological systems containing rare and unique aquatic life.

The water level of the Edwards Aquifer has never fallen below the uppermost part of the Edwards Aquifer even during extreme and lengthy drought conditions lasting from 1947 to 1956. The maximum fluctuation of water levels at the City’s index well has been about 91 feet, with the recorded low of 612 feet above sea level in August 1956 and a recorded high of 703 feet above sea level in June, 1992. In the summer of 2007, the Edwards Aquifer hit 699 feet above sea level. The historical (1934 to 1999) average water level at the index well in San Antonio is approximately 664 feet above sea level. San Antonio Water Supply (“SAWS”), the major water purveyor in the County as the water agency of the City, sets all pumps at 575 feet to insure continuous access to Edwards Aquifer water in any anticipated condition.

The Edwards Aquifer is recharged from streams and by precipitation infiltrating directly into the cavernous, honeycombed, limestone outcroppings in its north and northwestern area. Practically continuous recharge is furnished by spring-fed streams, with storm water runoff adding additional recharge, as well. The historical annual recharge to the reservoir is approximately 679,000 acre-feet. The average annual recharge over the last four decades, however, including the aforementioned drought period, is approximately 791,300 acre-feet. The lowest recorded recharge was 43,000 acre-feet in 1956, while the highest was 2,485,000 acre-feet in 1992. Recharge has been increased by the construction of recharge dams over an area of the Edwards Aquifer exposed to the surface known as the “recharge zone.” The recharge dams, or flood-retarding structures, slows flood waters and allows much of the water that would have otherwise bypassed the recharge zone to infiltrate the Edwards Aquifer instead of being lost to the ground.

Labor Force Statistics ⁽¹⁾

	<u>2019 ⁽²⁾</u>	<u>2018 ⁽³⁾</u>	<u>2017 ⁽³⁾</u>	<u>2016 ⁽³⁾</u>
Civilian Labor Force	946,576	940,900	925,234	905,907
Total Employed	922,070	909,581	892,466	872,008
Total Unemployed	24,506	31,319	32,768	33,899
% Unemployment	2.6%	3.3%	3.5%	3.7%
Texas Unemployment	2.9%	3.9%	4.3%	4.6%

(1) Source: Texas Workforce Commission.

(2) As of May 2019.

(3) Average Annual Statistics.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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FINAL

IN REGARD to the authorization and issuance of the “Southwest Independent School District Unlimited Tax School Building Bonds, Series 2019” (the *Bonds*), dated August 1, 2019, in the aggregate original principal amount of \$72,790,000, we have reviewed the legality and validity of the issuance thereof by the Southwest Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 2020 through 2039, February 1, 2044, and February 1, 2049, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “SOUTHWEST INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2019”

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

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

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

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

APPENDIX D

**EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018**

**(Not intended to be a complete statement of the Issuer's financial condition.
Reference is made to the complete Annual Financial Report for further information.)**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Southwest Independent School District
11914 Dragon Lane
San Antonio, Texas 78252

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Independent School District, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Southwest Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Independent School District as of August 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note M to the financial statements, in 2018, the District adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. Because GASB #75 implements new measurement criteria and reporting provisions, significant information has been added to the Government-Wide Statements. Exhibit A-1 discloses the District's Net OPEB Liability and some deferred resource outflows and deferred resource inflows related to the District's OPEB. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual-General Fund, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of District Contributions for Pensions, Schedule of the District's Proportionate Share of the Net OPEB Liability and Schedule of the District Contributions for Other Post-Employment Benefits, on pages 7-17 and 57-61 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 Southwest Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulation of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-3. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of the Southwest Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Southwest Independent School 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 Southwest Independent School District's internal control over financial reporting and compliance.

Coleman, Horton + Company, LLP

Uvalde, Texas
October 19, 2018

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of the Southwest Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ended August 31, 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- * The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at August 31, 2018 by \$29,919,397 (*net position*). Of this amount, \$(25,502,198) is reported as *unrestricted net position* and may be used to meet the District's ongoing obligations. *Restricted net position* consists of \$1,589,067 for debt service, \$1,916,396 for state and federal programs, and \$1,706,850 for other purposes. The remaining amount of \$50,209,282 reflects the portion of the net position that the District has invested in capital assets, net of related debt.
- * The District's total net position increased by a total of \$17,057,412. There was a prior period negative adjustment of \$86,907,850 to reflect the District's beginning proportionate share of other post employment benefits in accordance with GASB 75.
- * The general fund reported a fund balance of \$63,156,569 at August 31, 2018. The unrestricted, uncommitted amount was \$34,371,266 or 27.97% of total general fund expenditures.
- * The District's total expenditures for its government-wide activities was less than the prior year, decreasing by \$40,792,391. The amount of the decrease associated with implementation of GASB 75(OPEB) equated to a reduction of expenses of \$42,479,716. After factoring in this adjustment expenses increased \$1,687,325.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's annual report consists of six parts—*management's discussion and analysis* (this section), the *basic financial statements, required supplementary information, combining statements, T.E.A. required schedules and federal section*. The basic financial statements include two kinds of statements that present different views of the District:

- * The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- * The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- * The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- * *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The basic financial statements also include *notes* that provide additional information that is key in understanding the data provided in the government-wide and fund 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 deferred outflows less the District's liabilities and deferred inflows, with the difference between the two reported as *net position*. Overtime, increases and decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, i.e., such as, changes in the District's average daily attendance or its property tax base and the condition of the District's facilities. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition paid by students for various activities, and school lunch charges and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues).

The government-wide financial statements include only the *governmental activities* of the District since the District does not have any *business type activities*. The District's basic services are included here, which consist of instruction, support services, plant maintenance, and food services. Property taxes, state funding and federal grants finance the majority of these activities.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Fund Financial Statements

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

Some funds are required by State law and bond covenants and other funds are established by the Board of Trustees to control and account for resources that have been segregated for specific activities or purposes.

The District has two kinds of funds:

- * *Governmental funds* - These funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. 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, unlike the government-wide financial statements, governmental fund financial statements provide a detailed *short-term* view that may be useful in determining 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 reconciliation for both, the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to explain the relationship (or differences) between *governmental funds* and *governmental activities*.

The District maintains 26 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and capital projects fund, both of which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* (Exhibit H-1 and H-2) elsewhere in this report.

- * *Fiduciary funds* - The District is the trustee, or *fiduciary*, for the student activity funds and is responsible for ensuring that the assets reported for these funds are used for their intended purposes. The District's fiduciary activities are reported in a separate statement of fiduciary net position. Fiduciary funds are *not* reflected in the government-wide financial statements because those resources are not available to finance the District's operations.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Other Information

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule is presented in Exhibit G-1 as Required Supplementary Information (RSI) in the annual report.

In addition to the basic financial statements, accompanying notes, and the RSI, this report also presents the combining statements referred earlier in connection with nonmajor governmental funds. The section labeled Required TEA Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms and agreements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position:

Net position may serve over time as a useful indicator of a government's financial position. The District's *combined* net position at August 31, 2018 was \$29,919,397. (See Table A-1).

The net investment in capital assets (i.e. land, buildings, construction in progress, and equipment); less any related debt, used to acquire those assets, that is still outstanding, represents the largest percent of the District's combined net position. This is one of the largest portions of net position and is used for the operations of the District and to provide educational services to students; therefore, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position reflects restricted net position. Restricted net position represents resources that are subject to external restrictions on how they may be used and are currently restricted for capital projects and other State Programs.

The remaining balance of \$(25,502,198) represents the *unrestricted net position* that may be used to meet the District's ongoing obligations and programs. The implementation of GASB 75 (OPEB) reduced unrestricted net position by \$69,494,050 in the current year.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**Table A-1
The District's Net Position**

	<u>August 31, 2018</u>	<u>August 31, 2017</u>	<u>Variance</u>
Current and other assets	\$ 86,858,558	\$ 94,625,661	\$ (7,767,103)
Capital and non-current assets	292,937,833	300,347,122	(7,409,289)
Total Assets	<u>379,796,391</u>	<u>394,972,783</u>	<u>(15,176,392)</u>
Deferred outflows	16,916,380	19,016,877	(2,100,497)
Current liabilities	9,078,335	10,098,930	(1,020,595)
Long term liabilities	332,341,071	302,080,918	30,260,153
Total Liabilities	<u>341,419,406</u>	<u>312,179,848</u>	<u>29,239,558</u>
Deferred inflows	25,373,968	2,039,977	23,333,991
Net position:			
Net investment in capital assets	50,209,282	48,203,432	2,005,850
Restricted	5,212,313	10,883,236	(5,670,923)
Unrestricted	(25,502,198)	40,683,167	(66,185,365)
Total Net Position	<u>\$ 29,919,397</u>	<u>\$ 99,769,835</u>	<u>\$ (69,850,438)</u>

Changes in net position

At the end of the current fiscal year, the District was able to report increases in one of three categories of net position. The total decrease in net position during the year was \$69,850,438.

- * Net investment in capital assets increased by \$2,005,850.
- * Restricted net position decreased by \$5,670,923.
- * Unrestricted net position decreased by \$66,850,438.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

Governmental Activities

The District's total revenues were \$139,959,123. (See Table A-2). A significant portion, 63 percent, comes from operating grants and contributions, and grants and contributions not restricted; 32 percent from taxes and only 5 percent relates to charges for services, investment earnings and other revenues.

The total cost of all programs and services was \$122,901,711 with 67 percent representing costs for instructional and student support services.

The District's net position increased as a result of total revenues exceeding the total expenditures of all programs and services. Key elements of this increase are as follows:

- * Property tax revenues increased by \$1,847,478.
- * Grants and contributions decreased by \$18,503,774.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**Table A-2
Changes in the District's Net Position**

Revenues:	<u>August 31, 2018</u>	<u>August 31, 2017</u>	<u>Variance</u>
Program Revenues:			
Charges for services	\$ 2,484,861	\$ 3,088,179	\$ (603,318)
Operating grants and contributions	18,345,223	23,491,267	(5,146,044)
General Revenues:			
Maintenance and operations taxes	36,291,371	34,822,337	1,469,034
Debt service taxes	9,396,539	9,018,095	378,444
Grants and contributions (not restricted)	(11,783,015)	8,421,431	(20,204,446)
State aid formula grants	82,342,184	75,495,468	6,846,716
Investment earnings	1,233,323	922,398	310,925
Miscellaneous	1,648,637	1,249,706	398,931
Total Revenue	<u>\$ 139,959,123</u>	<u>\$ 156,508,881</u>	<u>\$ (16,549,758)</u>
Expenses:			
Instruction, curriculum and media services	\$ 67,374,939	\$ 91,485,798	\$ (24,110,859)
Instructional and school leadership	7,524,199	11,168,501	(3,644,302)
Student support services	8,331,719	12,789,062	(4,457,343)
Food services	8,376,891	10,187,720	(1,810,829)
Co curricular activities	4,088,120	5,194,926	(1,106,806)
General administration	3,024,758	4,192,337	(1,167,579)
Plant maintenance, security and data processing	13,515,025	17,837,665	(4,322,640)
Community services	409,811	397,419	12,392
Debt service	10,036,385	9,869,958	166,427
Facilities acquisition and construction	12,621	114,137	(101,516)
Payments to fiscal agent-shared service	207,243	456,579	(249,336)
Total Expenses	<u>\$ 122,901,711</u>	<u>\$ 163,694,102</u>	<u>\$ (40,792,391)</u>
Change in net position	17,057,412	(7,185,221)	24,242,633
Net position - beginning	99,769,835	106,955,056	(7,185,221)
Prior period adjustment	(86,907,850)	-	(86,907,850)
Net position - ending	<u>\$ 29,919,397</u>	<u>\$ 99,769,835</u>	<u>\$ (69,850,438)</u>

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The total cost of all programs and services decreased by \$40,92,391. A large part of the decrease is due to the reduction in costs from implementation of GASB 75 (OPEB). Expenses were decreased by \$42,479,716. If you remove the GASB 75 factor expenses increased \$1,687,325.

The cost of all governmental activities this year was \$122,901,711. However, as shown above in Table A-2, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$45,687,910 (property taxes) because costs in the amount of \$20,830,084 were paid by those who directly benefitted from the programs, and \$82,342,184 of the costs were paid for by grants and contributions not restricted to specific function (state aid).

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As stated earlier, the District uses fund accounting for the purpose of carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

The *general fund* is the chief operating fund of the District and is established to account for resources that finance the fundamental operations of the District. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$34,371,266, while total fund balance reached \$63,156,569.

The fund balance of the District's general fund resulted in a net decrease of \$4,198,963 during the current fiscal year. The key factor in this net decrease is associated with transfers to the debt service fund of \$4,000,000.

Revenues from governmental fund types totaled \$166,067,360. The net increase of \$10,443,380 in revenues is a result of the decrease in State Aid formula and Operating grants and an increase in property taxes.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Differences between the original budget and the final amended budget were an increase of \$17,630,364, or 13.61%. A large portion of this increase was funding for retirement of a notes payable and capital projects improvements.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of August 31, 2018 amounts to \$292,937,833 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, improvements other than buildings, furniture and equipment, vehicles, infrastructure, and construction in progress. (See Table A-3).

Major capital asset events during the current fiscal year included the following:

- * Renovation of Southwest High School Phase II
- * Purchase of school busses

**Table A-3
The District's Capital Assets**

	<u>August 31, 2018</u>	<u>August 31, 2017</u>	<u>Variance</u>
Land	\$ 7,018,602	\$ 7,018,602	\$ -
Buildings and improvements	413,192,881	408,676,343	4,516,538
Furniture and equipment	29,539,543	28,272,309	1,267,234
Construction in progress	<u>3,762,282</u>	<u>2,751,968</u>	<u>1,010,314</u>
Totals at historical cost	453,513,308	446,719,222	6,794,086
Total accumulated depreciation	<u>(160,575,475)</u>	<u>(146,372,100)</u>	<u>(14,203,375)</u>
Net capital assets	<u>\$ 292,937,833</u>	<u>\$ 300,347,122</u>	<u>\$ (7,409,289)</u>

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

The District's local 2018 capital budget encompasses various capital projects across the District. These following projects are financed through Local Funds, Southwest High School Phase II, technology infrastructure and furniture, fixtures and equipment at Southwest High School.

The District anticipates spending 2017 bond funds in the amount of \$7 million for completing Legacy High School, Southwest High School renovation Phase II, purchase busses and purchase technology devices for students.

Additional information on the District's capital assets can be found in Note F in the notes to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the District's total long-term debt outstanding was \$252,432,129 versus \$266,706,052 in the prior year, a decrease of 5.35 percent (See Table A-4). Additional information on the District's long-term debt can be found in Notes G through I in the notes to the financial statements.

**Table A-4
District's Long-Term Debt**

	<u>August 31, 2018</u>	<u>August 31, 2017</u>	<u>Variance</u>
Bonds payable	\$ 227,169,680	\$ 233,055,908	\$ (5,886,228)
Unamortized premiums/discounts	25,262,449	25,650,144	(387,695)
Maintenance tax note payable	<u>-</u>	<u>8,000,000</u>	<u>(8,000,000)</u>
Total Long-Term Debt	<u>\$ 252,432,129</u>	<u>\$ 266,706,052</u>	<u>\$ (14,273,923)</u>

The long-term credit rating of the District has been maintained at "AAA" from Standard and Poor's and at "Aaa" from Moody's by virtue of the guarantee of the Permanent School Fund of the State of Texas. In addition, the District received an underlying rating of A+ with a positive outlook from Standard and Poor's and a A3 from Moody's.

**SOUTHWEST INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- * The districts appraised value used for the 2018-2019 budget preparation will increase approximately \$721,982,036 from the previous tax year.
- * The District's 2018-2019 average daily attendance (ADA) is expected decrease by 60 students, the district's enrollment trend is projected to remain steady or slightly lower than last year's enrollment numbers.

These indicators were taken into account when adopting the general fund budget for 2018-2019. One factor that impacted the 2018-2019 budget was the property tax increase due to the growth in appraised property values. The district anticipates receiving an additional \$3.7 million in additional revenue due to the property value increase. These additional funds will be used to make one time purchase of furniture, fixtures, and equipment across the district. The district expects the state to adjust for the property value growth in year 2019-2020 and reduce the amount of revenue the district receives from foundation school program. The district also has budgeted from the district fund balance approximately \$2 million for a one time incentive retention check for all eligible employees.

The total general fund budget for 2018-2019 is \$129,019,913 which is a 3% increase over the final expenditures of 2017-2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Assistant Superintendent for Finance and Business, 11914 Dragon Lane, Southwest Independent School District, San Antonio, Texas, 78252-2647.

BASIC FINANCIAL STATEMENTS

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 46,824,436
1120 Current Investments	33,222,062
1220 Property Taxes Receivable (Delinquent)	2,549,074
1230 Allowance for Uncollectible Taxes	(382,361)
1240 Due from Other Governments	4,008,568
1250 Accrued Interest	89,256
1267 Due from Fiduciary Funds	237
1290 Other Receivables, net	6,910
1300 Inventories	540,376
Capital Assets:	
1510 Land	7,018,602
1520 Buildings, Net	274,575,330
1530 Furniture and Equipment, Net	7,581,619
1580 Construction in Progress	3,762,282
1000 Total Assets	379,796,391
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	6,269,306
1703 Deferred Resource Outflow Related to TRS OPEB	800,784
1705 Deferred Outflow Related to TRS Pension	9,846,290
1700 Total Deferred Outflows of Resources	16,916,380
LIABILITIES	
2110 Accounts Payable	2,051,481
2140 Interest Payable	786,719
2150 Payroll Deductions & Withholdings	873,458
2160 Accrued Wages Payable	4,171,593
2180 Due to Other Governments	241,624
2200 Accrued Expenses	106,304
2300 Unearned Revenue	847,156
Noncurrent Liabilities	
2501 Due Within One Year	7,715,000
2502 Due in More Than One Year	244,717,130
2540 Net Pension Liability (District's Share)	30,346,267
2545 Net OPEB Liability (District's Share)	49,562,674
2000 Total Liabilities	341,419,406
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	4,641,808
2606 Deferred Resource Inflow Related to TRS OPEB	20,732,160
2600 Total Deferred Inflows of Resources	25,373,968
NET POSITION	
3200 Net Investment in Capital Assets	50,209,282
3820 Restricted for Federal and State Programs	1,916,396
3850 Restricted for Debt Service	1,589,067
3890 Restricted for Other Purposes	1,706,850
3900 Unrestricted	(25,502,198)
3000 Total Net Position	\$ 29,919,397

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Data Control Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 63,916,188	\$ 483,172	\$ 7,482,557	\$ (55,950,459)
12 Instructional Resources and Media Services	1,369,147	-	-	(1,369,147)
13 Curriculum and Staff Development	2,089,604	10,280	1,590,632	(488,692)
21 Instructional Leadership	2,145,328	-	224,448	(1,920,880)
23 School Leadership	5,378,871	-	20,610	(5,358,261)
31 Guidance, Counseling and Evaluation Services	2,595,194	-	201,327	(2,393,867)
32 Social Work Services	1,055,762	-	186,508	(869,254)
33 Health Services	865,988	-	-	(865,988)
34 Student (Pupil) Transportation	3,814,775	-	-	(3,814,775)
35 Food Services	8,376,891	1,117,432	8,166,092	906,633
36 Extracurricular Activities	4,088,120	350,847	13,436	(3,723,837)
41 General Administration	3,024,758	-	-	(3,024,758)
51 Facilities Maintenance and Operations	11,715,245	509,264	363,197	(10,842,784)
52 Security and Monitoring Services	591,581	10,280	-	(581,301)
53 Data Processing Services	1,208,199	-	-	(1,208,199)
61 Community Services	409,811	3,586	96,416	(309,809)
72 Debt Service - Interest on Long Term Debt	9,917,292	-	-	(9,917,292)
73 Debt Service - Bond Issuance Cost and Fees	119,093	-	-	(119,093)
81 Capital Outlay	12,621	-	-	(12,621)
95 Payments to Juvenile Justice Alternative Ed. Prg.	4,891	-	-	(4,891)
99 Other Intergovernmental Charges	202,352	-	-	(202,352)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 122,901,711	\$ 2,484,861	\$ 18,345,223	(102,071,627)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			36,291,371
DT	Property Taxes, Levied for Debt Service			9,396,539
SF	State Aid - Formula Grants			82,342,184
GC	Grants and Contributions not Restricted			(11,783,015)
IE	Investment Earnings			1,233,323
MI	Miscellaneous Local and Intermediate Revenue			1,648,637
TR	Total General Revenues			119,129,039
CN	Change in Net Position			17,057,412
NB	Net Position - Beginning			99,769,835
PA	Prior Period Adjustment			(86,907,850)
NE	Net Position--Ending			\$ 29,919,397

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Capital Projects Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 33,054,864	\$ 10,547,710	\$ 3,221,862	\$ 46,824,436
1120 Investments - Current	32,972,533	-	249,529	33,222,062
1220 Property Taxes - Delinquent	2,030,632	-	518,442	2,549,074
1230 Allowance for Uncollectible Taxes (Credit)	(304,595)	-	(77,766)	(382,361)
1240 Receivables from Other Governments	2,359,732	-	1,648,836	4,008,568
1250 Accrued Interest	89,256	-	-	89,256
1260 Due from Other Funds	110,156	-	27,427	137,583
1290 Other Receivables	4,676	1,010	1,224	6,910
1300 Inventories	406,799	-	133,577	540,376
1000 Total Assets	<u>\$ 70,724,053</u>	<u>\$ 10,548,720</u>	<u>\$ 5,723,131</u>	<u>\$ 86,995,904</u>
LIABILITIES				
2110 Accounts Payable	\$ 1,084,172	\$ 845,141	\$ 122,168	\$ 2,051,481
2150 Payroll Deductions and Withholdings Payable	873,458	-	-	873,458
2160 Accrued Wages Payable	3,757,137	-	414,456	4,171,593
2170 Due to Other Funds	137,346	-	-	137,346
2180 Due to Other Governments	-	-	241,624	241,624
2200 Accrued Expenditures	80,234	-	26,070	106,304
2300 Unearned Revenues	-	-	847,156	847,156
2000 Total Liabilities	<u>5,932,347</u>	<u>845,141</u>	<u>1,651,474</u>	<u>8,428,962</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	1,635,137	-	415,137	2,050,274
2600 Total Deferred Inflows of Resources	<u>1,635,137</u>	<u>-</u>	<u>415,137</u>	<u>2,050,274</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	406,799	-	133,577	540,376
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	1,916,396	1,916,396
3470 Capital Acquisition and Contractual Obligation	-	9,703,579	-	9,703,579
3480 Retirement of Long-Term Debt	-	-	1,589,067	1,589,067
3490 Other Restricted Fund Balance	1,166,474	-	-	1,166,474
Committed Fund Balance:				
3510 Construction	18,309,758	-	-	18,309,758
3545 Other Committed Fund Balance	8,902,272	-	17,480	8,919,752
3600 Unassigned Fund Balance	34,371,266	-	-	34,371,266
3000 Total Fund Balances	<u>63,156,569</u>	<u>9,703,579</u>	<u>3,656,520</u>	<u>76,516,668</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 70,724,053</u>	<u>\$ 10,548,720</u>	<u>\$ 5,723,131</u>	<u>\$ 86,995,904</u>

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	76,516,668
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$446,719,222 and the accumulated depreciation was (\$146,372,100). In addition, long-term liabilities, including bonds payable of (\$229,558,289) and loans payable of (\$8,000,000), are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		62,788,833
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays of \$7,088,753 and debt principal payments of \$15,305,000 is to increase net position.		22,393,753
3 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(14,495,886)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of (\$30,346,267), a Deferred Resource Inflow related to TRS in the amount of (\$4,641,808), and a Deferred Resource Outflow related to TRS in the amount of \$9,846,290. This net effect of recording these pension related accounts is to decrease net position.		(25,141,785)
5 Included in the items related to debt is the recognition of the District's proportionate share of the other post employment benefit required by GASB 75 in the amount of (\$49,562,674), a Deferred Resource Inflow related to TRS OPEB in the amount of (\$20,732,160), and a Deferred Resource Outflow related to TRS OPEB in the amount of \$800,784. This net effect of recording these OPEB related accounts is to decrease net position.		(69,494,050)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$2,050,274 as revenue, recognizing unamortized losses on bond refundings of \$6,269,306, recognizing unamortized bond premium of (\$25,262,449), recognizing accumulated accretion on capital appreciation bonds of (\$4,916,409), removing the book value of assets disposed of (\$2,156), showing the difference in bonds issued to refund an older series of debt as a debt reduction of \$17, and recognizing the liabilities associated with maturing long-term debt and interest of (\$786,719). The net effect of these reclassifications and recognitions is to increase net position.		(22,648,136)
19 Net Position of Governmental Activities	\$	29,919,397

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Capital Projects Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 39,463,445	\$ 194,557	\$ 11,299,737	\$ 50,957,739
5800 State Program Revenues	88,345,622	-	6,869,783	95,215,405
5900 Federal Program Revenues	2,832,408	-	17,061,808	19,894,216
5020 Total Revenues	<u>130,641,475</u>	<u>194,557</u>	<u>35,231,328</u>	<u>166,067,360</u>
EXPENDITURES:				
Current:				
0011 Instruction	68,957,117	-	7,856,250	76,813,367
0012 Instructional Resources and Media Services	2,236,420	-	-	2,236,420
0013 Curriculum and Instructional Staff Development	1,074,084	-	1,595,633	2,669,717
0021 Instructional Leadership	2,773,424	-	224,448	2,997,872
0023 School Leadership	7,890,399	-	33,539	7,923,938
0031 Guidance, Counseling and Evaluation Services	3,685,204	-	201,327	3,886,531
0032 Social Work Services	1,318,173	-	186,508	1,504,681
0033 Health Services	1,600,214	-	-	1,600,214
0034 Student (Pupil) Transportation	5,206,029	889,631	-	6,095,660
0035 Food Services	389,842	-	9,174,619	9,564,461
0036 Extracurricular Activities	4,411,247	-	27,081	4,438,328
0041 General Administration	4,359,977	-	-	4,359,977
0051 Facilities Maintenance and Operations	13,813,884	-	617,192	14,431,076
0052 Security and Monitoring Services	1,295,650	-	-	1,295,650
0053 Data Processing Services	1,887,715	-	17,247	1,904,962
0061 Community Services	351,548	-	96,416	447,964
Debt Service:				
0071 Principal on Long Term Debt	8,000,000	-	7,305,000	15,305,000
0072 Interest on Long Term Debt	19,144	-	9,440,672	9,459,816
0073 Bond Issuance Cost and Fees	1,200	-	117,893	119,093
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,361,924	4,163,710	-	5,525,634
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	4,891	-	-	4,891
0099 Other Intergovernmental Charges	202,352	-	-	202,352
6030 Total Expenditures	<u>130,840,438</u>	<u>5,053,341</u>	<u>36,893,825</u>	<u>172,787,604</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(198,963)</u>	<u>(4,858,784)</u>	<u>(1,662,497)</u>	<u>(6,720,244)</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	8,204,982	8,204,982
7915 Transfers In	-	-	4,000,000	4,000,000
7916 Premium or Discount on Issuance of Bonds	-	-	995,771	995,771
8911 Transfers Out (Use)	(4,000,000)	-	-	(4,000,000)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(9,364,592)	(9,364,592)
7080 Total Other Financing Sources (Uses)	<u>(4,000,000)</u>	<u>-</u>	<u>3,836,161</u>	<u>(163,839)</u>
1200 Net Change in Fund Balances	<u>(4,198,963)</u>	<u>(4,858,784)</u>	<u>2,173,664</u>	<u>(6,884,083)</u>
0100 Fund Balance - September 1 (Beginning)	<u>67,355,532</u>	<u>14,562,363</u>	<u>1,482,856</u>	<u>83,400,751</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 63,156,569</u>	<u>\$ 9,703,579</u>	<u>\$ 3,656,520</u>	<u>\$ 76,516,668</u>

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT EXHIBIT C-4
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	(6,884,083)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays of \$7,088,753 and debt principal payments of \$15,305,000 is to increase net position.		22,393,753
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(14,495,886)
Current year changes due to GASB 68 decreased revenues in the amount of (\$1,139,313) and also increased expenditures in the amount of (\$34,214). The impact of these items is to decrease net position.		(1,173,527)
The implementation of GASB 75 to report the District's share of the TRS OPEB plan resulted in a prior period adjustment. Current year changes due to GASB 75 resulted in a decrease in revenues of (\$25,065,916) but also decreased expenditures in the amount of \$42,479,716. The net effect on the change in the ending net position was an increase.		17,413,800
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy of \$99,148, recognizing current year amortization of accounting losses of (\$460,579), recognizing amortization of bond premium of \$1,383,466, recognizing current year accretion on capital appreciation bonds of (\$1,418,790), recognizing the change in liabilities associated with maturing long-term debt and interest of \$38,427, recognizing accounting loss on bonds refunded in the current year of \$1,159,592, reclassifying the associated premium/discount of (\$995,771) on those bonds, showing debt reduction on bonds refunded and bonds issued of \$18, and removing the book value of assets disposed of (\$2,156). The net effect of these reclassifications and recognitions is to decrease net position.		(196,645)
Change in Net Position of Governmental Activities	\$	<u>17,057,412</u>

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 382,061
Other Receivables	237
Total Assets	<u>\$ 382,298</u>
LIABILITIES	
Due to Other Funds	\$ 237
Due to Student Groups	382,061
Total Liabilities	<u>\$ 382,298</u>

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Southwest 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 (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *GASB Statement No. 76* and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

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

Fair Value. Southwest Independent School District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Southwest Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by property taxes, State foundation funds, grants, and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "operating grants and contributions" column indicates amounts paid by organizations outside the District to help meet the operational requirements of a given function. Examples include grants under the Elementary and Secondary Education Act and Individuals with Disabilities Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Property taxes are always general revenues.

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

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual concept," that is, when they are both measurable and available. The District considers them "available" if they are collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

Agency funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** - The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

3. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds is the student activity fund.

E. FUND BALANCE POLICY

Southwest Independent School District reports fund balance for governmental funds in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – committed, assigned, and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Board.

The Board of Trustees may make assignments of certain fund balances by a majority vote in a scheduled meeting.

Amendments or modifications of the assigned fund balance must also be approved by a majority vote in a scheduled meeting.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged to committed, assigned then unassigned.

By a majority vote in a scheduled meeting the Board of Trustees may commit or assign fund balances and it may modify or rescind commitments or assignments.

Nonspendable	
Inventories in the general fund	\$ 406,799
Inventories in the food service fund	<u>133,577</u>
Total nonspendable	<u>540,376</u>
Restricted	
Debt Service	1,589,067
Capital acquisition	9,703,579
Federal or State fund grant restrictions	1,916,396
Scholarship fund	<u>1,166,474</u>
Total restricted	<u>14,375,516</u>
Committed	
Future construction needs	18,309,758
Infrastructure needs	8,902,272
Campus Activity Funds	<u>17,480</u>
Total committed	<u>27,229,510</u>
Unassigned	<u>34,371,266</u>
Total Fund Balances	<u>\$ 76,516,668</u>

F. OTHER ACCOUNTING POLICIES

1. The District reports inventories of supplies at cost including consumable custodial, maintenance, instructional, and office supplies. Inventories of supplies are recorded as expenditures when they are consumed rather than when they are purchased. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
2. Cash and cash equivalents includes cash and high liquid investments such as investment pools, overnight sweep accounts, and treasury bills that have a maturity from time of purchase of three months or less.
3. Unearned revenue accounted for on the balance sheet relates to excess funds received from the Texas Education Agency over earned amounts.
4. The District provides risk management obligations by carrying appropriate insurance. Property and general liability insurance is obtained from a licensed insurer. Risk of loss is not retained by the District.
5. 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

6. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.
7. 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District's deferred outflows of resources consist of differences between expected and actual actuarial experience (pension & OPEB), changes in actuarial assumptions (pension & OPEB), differences between projected and actual investment earnings (OPEB), change in proportion and differences between employer's contributions and the proportionate share of contributions (pension & OPEB), and contributions paid to TRS subsequent to the measurement date (pension & OPEB).
8. 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. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. In the government wide financial statements, the District reports a deferred inflow of resources for differences between expected and actual actuarial experience (pension & OPEB), changes in actuarial assumptions (pension & OPEB), differences between projected and actual investment earnings (pension & OPEB), and changes in proportion and differences between employer's contributions and the proportionate share of contributions (pension & OPEB).
9. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums, discounts, and losses due to refunded bonds are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

10. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. Vacation pay is not accrued in the government-wide financial statements since employees are required to take vacation within the same year it is earned and any unused days at the end of the year are forfeited.
11. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	10-30
Vehicles	8-15
Equipment	3-8

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the assistant superintendent for finance and business at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2018	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 2,049,973
Nonappropriated Budget Funds	<u>17,480</u>
All Special Revenue Funds	<u><u>\$ 2,067,453</u></u>

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risks for deposits.

At year end, the District had funds on deposit of \$29,348,598 in excess of FDIC coverage, secured by a letter of credit from the Federal Home loan Bank.

As of August 31, 2018, Southwest Independent School District had the following cash and cash equivalents.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1-10 Years</u>	<u>More than 10 Years</u>	<u>Credit Rating</u>
Collateralized Demand Deposit Accounts	\$ 29,608,486	\$ 29,608,486	\$ -	\$ -	AAM
2a7 - Like Local Government Pools	17,598,011	17,598,011	-	-	AAM
Total Cash and Cash Equivalents	<u>\$ 47,206,497</u>	<u>\$ 47,206,497</u>	<u>\$ -</u>	<u>\$ -</u>	

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditor's perform test procedures related to investment practices as provided by the Act. Southwest Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional polices and contractual provisions governing investments for Southwest Independent School District are specified below:

Credit Risk

Texas state law and the Southwest Independent School District's Board adopted Investment Policy place high credit quality and the safety it provides as a priority in its investment process. Credit minimums are set for appropriate investment types and a procedure is included in the policy for monitoring, disclosing and acting on credit downgrades. Risk is controlled by investment only in the highest credit quality investments as defined by Policy. The investments primary objective is to ensure that capital losses are avoided, whether from security defaults or erosion of market value.

Credit risk within authorized investments of the District's portfolio is limited by strong controls within the adopted policy.

Depository certificates of deposit are authorized only in Texas banks and must be fully insured by the FDIC or collateralized in accordance with policy. Collateral is required at a 102% margin (and 110% for mortgage-backed collateral) with securities priced at market on a monthly basis as a contractual responsibility of the bank. Collateral is restricted by State law. Independent safekeeping of collateral is required outside the bank holding company with monthly reporting from the custodian. Maximum stated maturity is set at two years. The authorization also includes CD spread programs which maintain all funds under the FDIC insurance levels.

Share certificates from credit unions are authorized from Texas institutions and insured by the National Credit Union Insurance Fund with a maximum stated maturity of two years.

State law and the adopted Investment Policy limit repurchase agreements to Texas banks and primary dealers. State law and the Policy require a defined termination date, an industry standard, written master repurchase agreement, independent safekeeping of collateral, and a 102% margin on collateral. Fully collateralized flex repurchase agreements are restricted by Policy to the use of bond funds and are restricted to being matched to bond proceeds expenditure plans. The term of any reverse security repurchase agreement may not exceed ninety (90) days after the date of delivery.

Bankers acceptances are authorized if designed as prime.

Commercial paper is restricted by Policy and state law to a credit rating of A1/P1 or equivalent by at least two nationally recognized rating agencies. Policy restricts the securities to 90 days to stated maturity.

SEC-registered money market mutual funds which strive to maintain a \$1 NAV are further restricted by policy to those which are AAA-rated and limited to only those invested in District authorized investments.

Brokered certificates of deposit are authorized for banks with the U.S. if fully FDIC insured and delivered versus payment to the District's safekeeping agent. FDIC status must be verified and the maximum maturity is limited to one year. The adopted Policy also requires a procedure to verify continued FDIC insurance weekly.

Obligations of the State of Texas or its agencies and instrumentalities or obligations of other states, agencies, counties, cities and other political subdivisions rated as to investment quality by a nationally recognized rating firm (NRSRO) not less than A or its equivalent are authorized. Debt obligations have a maximum maturity of three (3) years.

Policy authorized local government investment pools must, by policy and state law, be AAA or equivalent rated.

AAA-rated, local government investment pools as defined by state law (2256.016) and approved by the District's Board are authorized. By state law all local government pools are rated AAA or equivalent by at least one NRSRO.

All time and demand deposits are required to be FDIC insured or collateralized to 102% (110% if mortgage-backed securities). They must be from eligible depositories doing business in Texas and under the terms of a written collateral agreement. The bank is responsible for monitoring and maintaining the collateral margins.

The state law (2256.015) and the District's adopted policy restrict guaranteed investment contracts (GIC) and require that it have a defined termination date and full collateralization equal to the amount of the GIC. Collateral must be held by an independent third party institution. The District's Board must specifically authorize each GIC and the GIC must be competitively bid.

The maximum average weighted maturity for the total portfolio is twelve (12) months and the maximum stated maturity for any investment is three (3) years by policy.

Investment Type	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years	Credit Rating
Insured or Collateralized CDs	\$ -	\$ -	\$ -	\$ -	\$ -	AAA
Municipal Bonds	930,000	-	-	930,000	-	AAA
Commercial Paper	5,483,683	5,483,683	-	-	-	AAA
U.S. Treasury Notes and Bills	7,222,116	7,222,116	-	-	-	AAA
U.S. Agencies	19,586,263	17,614,401	1,971,862	-	-	AAA
Total Investments	\$ 33,222,062	\$ 30,320,200	\$ 1,971,862	\$ 930,000	\$ -	

As of August 31, 2018:

- U.S. Treasury obligations represented 8.98% of the total portfolio,
- U.S. agency securities from two agencies represented 21.88% of the total portfolio,
- municipal obligations represented 1.16% of the total portfolio,
- A1/P1 commercial paper represented 6.82% of the total portfolio,
- funds invested in local government investment pools represented 21.88% of the total portfolio,
- FDIC insured and collateralized demand deposit accounts represented 36.81% of the total portfolio.

Concentration of Credit Risk

Southwest Independent School District's adopted Investment Policy requires diversification on all authorized investment types which are monitored on at least a monthly basis.

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, Southwest Independent School District's adopted Investment Policy sets a maximum maturity of three (3) years although the Board may authorize longer investments within state law limitations. The District's Policy establishes a maximum weighted average maturity (WAM) of 365 days.

As of August 31, 2018, the portfolio contained:

- six U.S. agency quarterly callable securities,
- the dollar weighted average maturity of the total portfolio was 136 days.

As of August 31, 2018, the portfolio contained six structured notes or other structures presenting interest rate risk. See below for a listing of the structured notes.

Inv.#	Cusip	Issuer	Coupon	Par	Purchase Date	Maturity Date	Call Date	Structure	Book Value	Market Value
Quarterly Callable Securities:								Callable quarterly with 5 business days notice		
10278	3134G9JK4	FHLMC	1.125%	\$3,000,000	05/26/16	11/26/18	11/26/18		\$3,000,000	\$2,993,562
10279	3136G3MH5	FNMA	1.250%	\$2,000,000	05/27/16	05/30/19	11/30/18	Callable quarterly with 10 business days notice	\$2,000,000	\$1,983,474
10293	3134GAQT4	FHLMC	1.000%	\$2,000,000	10/17/16	01/17/19	10/17/18	Callable quarterly with 5 business days notice	\$2,000,000	\$1,990,912
10295	3134GASE5	FHLMC	1.050%	\$2,000,000	10/28/16	10/26/18	10/26/18	Callable quarterly with 5 business days notice	\$2,000,000	\$1,996,700
10296	3134GARV8	FHLMC	1.300%	\$2,000,000	10/28/16	10/25/19	10/25/18	Callable quarterly with 5 business days notice	\$2,000,000	\$1,971,862
10331	3135GOP23	FNMA	1.250%	\$2,000,000	04/06/18	08/23/19	11/23/18	Callable quarterly with 10 business days notice	\$2,000,000	\$1,975,536
									<u>\$13,000,000</u>	<u>\$12,912,046</u>

Custodial Credit Risk for Investment

To control custody risk State law requires collateral for all time and demand deposits and repurchase agreements with securities transferred only on a delivery versus payment basis and held by an independent party approved by the District and held in the District's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions and position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% (with 110% on mortgaged-backed securities) and transactions are required to be executed under a written agreement.

Portfolio disclosure as of August 31, 2018,

- all bank demand deposits were fully insured and collateralized, in accordance with policy,
- collateral was equal in market value to 162% of the deposits, and
- all pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting policies. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Southwest Independent School District has the following recurring fair value measurements as of August 31, 2018:

- * Insured collateralized certificates of deposit of \$0 are valued using quoted market prices (Level 1 inputs),
- * Municipal bonds of \$930,000 are valued using quoted market prices (Level 1 inputs),
- * U.S. treasury notes and bills of \$7,222,116 are valued using quoted market prices (Level 1 inputs),
- * U.S. agency securities of \$ 19,586,263 are valued using quoted market prices (Level 1 inputs), and
- * Commercial paper of \$5,483,683 are valued using market approach (Level 2 inputs).

The investment pools used by the District are 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. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investment.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of stable net asset value of \$1. The book value of the position in the pools is the same as the number of the shares in each pool; the market value of a share should approximately equal the book value of a share.

Lone Star Investment Pool (the Pool): The Pool's liquidity fund operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the District's position in the Pool is the same as the value of the Pool's shares and does not include any unrealized gains and losses.

The Pool is governed by an eleven member board of trustees (Board) made up of active participants in the Pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board is also responsible for monitoring performance of the Pool. Financial information for the Pool can be obtained by writing to Post Office Box 400, Austin, Texas, 78767-0400 or by calling 1-800-758-3927.

Texas Local Government Investment Pool (Texpool); Texpool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. Texpool uses amortized cost rather than market value to report net assets to compute share prices.

Accordingly, the fair value of the position in the pool is the same as the value of the shares in each pool.

Texpool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate Texpool. In addition, the Texpool Advisory Board advises on Texpool's Investment Policy. This Board is composed equally of participants in Texpool and other persons who do not have a business relationship with Texpool who are qualified to advise Texpool. Financial information for Texpool can be accessed on the internet (<http://www.texpool.com>).

Money Market Investments: The Federal National Mortgage Association (FNMA) Discount Notes are reported at amortized cost, which approximates fair value, since the remaining maturity at time of purchase was less than one year.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances, primarily for payroll clearing purposes, at August 31, 2018 consisted of the following amounts:

Due to General Fund From:

Intrafund	\$ 109,919
Fiduciary Funds	<u>237</u>
Total Due to General Fund From Other Funds	<u><u>\$ 110,156</u></u>

Due to Nonmajor Governmental Funds From:

General Fund	<u>\$ 27,427</u>
Total Due to Nonmajor Governmental Funds	<u><u>\$ 27,427</u></u>

Total	<u><u>\$ 137,583</u></u>
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Transfers to Non-major Funds From:

General Fund	<u>\$ 4,000,000</u>
Total Transfers to Non-major Funds	<u><u>\$ 4,000,000</u></u>

Transfer were in support of servicing debt service.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2018 were as follows:

	Property Taxes	Other Governments	Accrued Interest	Due From Other Funds	Other	Total Receivables
Governmental Activities:						
General Fund	\$ 2,030,632	\$ 2,359,732	\$ 89,256	\$ 110,156	\$ 4,676	\$ 4,594,452
Capital Projects Fund	-	-	-	-	1,010	1,010
Nonmajor Governmental Funds	518,442	1,648,836	-	27,427	1,224	2,195,929
Total Governmental Activities	<u>\$ 2,549,074</u>	<u>\$ 4,008,568</u>	<u>\$ 89,256</u>	<u>\$ 137,583</u>	<u>\$ 6,910</u>	<u>\$ 6,791,391</u>
Amount not scheduled for collection during subsequent year	<u>\$ 382,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,361</u>

Payables at August 31, 2018 were as follows:

	Accounts Payables	Salaries and Benefits	Due to Other Funds	Other	Total Payables
Governmental Activities:					
General Fund	\$ 1,084,172	\$ 4,710,829	\$ 137,346	\$ -	\$ 5,932,347
Capital Projects Funds	845,141	-	-	-	845,141
Nonmajor Governmental Funds	122,168	440,526	-	-	562,694
Total Governmental Activities	<u>\$ 2,051,481</u>	<u>\$ 5,151,355</u>	<u>\$ 137,346</u>	<u>\$ -</u>	<u>\$ 7,340,182</u>
Amount not scheduled for payment during subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2018 was as follows:

	Primary Government			
	Beginning Balance	Additions	Adjustments Retirements	Ending Balance
Governmental Activities:				
Land	\$ 7,018,602	\$ -	\$ -	\$ 7,018,602
Buildings and improvements	408,676,343	1,764,570	2,751,968	413,192,881
Equipment	28,272,309	1,561,901	(294,667)	29,539,543
Construction in progress	2,751,968	3,762,282	(2,751,968)	3,762,282
Total at historical cost	<u>446,719,222</u>	<u>7,088,753</u>	<u>(294,667)</u>	<u>453,513,308</u>
Less accumulated depreciation				
Buildings and improvements	(125,875,862)	(12,741,689)	-	(138,617,551)
Equipment	<u>(20,496,238)</u>	<u>(1,754,197)</u>	<u>292,511</u>	<u>(21,957,924)</u>
Total accumulated depreciation	<u>(146,372,100)</u>	<u>(14,495,886)</u>	<u>292,511</u>	<u>(160,575,475)</u>
Governmental activities capital assets, net	<u>\$ 300,347,122</u>	<u>\$ (7,407,133)</u>	<u>\$ (2,156)</u>	<u>\$ 292,937,833</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 9,739,086
Instructional resources and media services	186,829
Curriculum and instructional staff development	108,478
Instructional and school leadership	92,679
School leadership	636,333
Guidance, counseling and evaluation services	291,034
Social work services	27,782
Health services	114,679
Student transportation	634,431
Food services	808,830
Extracurricular activities	409,537
General administration	59,152
Plant maintenance and operations	960,902
Security services	49,335
Data processing services	346,948
Community services	<u>29,851</u>
Total Depreciation Expense	<u>\$ 14,495,886</u>

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Statement of Net Position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2018 is as follows:

Description	Final Maturity	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/2017	Issued	Retired/ Refunded	Amounts Outstanding 8/31/2018	Amounts Due Within One Year
Unlimited Tax									
Refunding Bonds									
Series 2005	2025	5.25%	\$ 21,630,000	\$ 320,775	\$ 6,110,000	\$ -	\$ -	\$ 6,110,000	\$ -
Unlimited Tax									
School Building									
Bonds, Series 2008	2038	5.25%	\$ 22,000,000	\$ 9,840	\$ 480,000	\$ -	\$ 480,000	\$ -	\$ -
Unlimited Tax									
Refunding Bonds									
Series 2010	2020	3.00%	\$ 6,830,000	\$ 89,475	\$ 3,555,000	\$ -	\$ 1,145,000	\$ 2,410,000	\$ 1,185,000
Unlimited Tax									
School Building									
Bonds, Series 2013	2043	5.00%	\$ 81,828,289	\$ 2,618,200	\$ 79,678,290	\$ -	\$ 8,205,000	\$ 71,473,290	\$ -
Unlimited Tax									
School Building and									
Refunding Bonds									
Series 2014	2043	5.00%	\$ 91,695,000	\$ 4,142,850	\$ 85,770,000	\$ -	\$ 1,265,000	\$ 84,505,000	\$ 1,300,000
Unlimited Tax									
Refunding Bonds									
Series 2016	2027	5.00%	\$ 22,995,000	\$ 810,825	\$ 20,135,000	\$ -	\$ 2,940,000	\$ 17,195,000	\$ 3,055,000
Unlimited Tax									
School Building and									
Refunding Bonds									
Series 2016	2038	5.00%	\$ 35,070,000	\$ 1,318,288	\$ 33,830,000	\$ -	\$ 1,475,000	\$ 32,355,000	\$ 2,045,000
Unlimited Tax									
Refunding Bonds									
Series 2017	2033	4.00%	\$ 8,204,982	\$ 130,419	\$ -	\$ 8,204,982	\$ -	\$ 8,204,982	\$ 130,000
Totals			\$ 9,440,672	\$ 229,558,290	\$ 8,204,982	\$ 15,510,000	\$ 222,253,272	\$ 7,715,000	
Capital Appreciation Bonds									
C.A.B. Accreted									
Interest, Series 2013									
			\$ -	\$ 3,497,619	\$ 1,418,790	\$ -	\$ 4,916,409	\$ -	
Total All Bonds			\$ 9,440,672	\$ 233,055,909	\$ 9,623,772	\$ 15,510,000	\$ 227,169,681	\$ 7,715,000	

On December 6, 2017, the District issued \$16,940,000 (refunding portion) of Unlimited Tax Building & Refunding Bonds, Series 2017. The proceeds of the bonds were used for refunding the following Series:

Series	Maturities	Amount	Average Interest Rate
U/L Tax School Building Bonds, Series 2013	02/01/2032 through 02/01/2033	\$ 8,205,000	5.00%

The total bonds refunded had an average interest rate of 5.00% and were replaced with bonds that have an average interest rate of 4.4805255%. The cash flow savings to the District as a result of the refunding was \$1,380,833. The net present value savings is \$1,119,293. The proceeds of the refunding bonds were used to purchase U.S. Government securities. The securities were deposited in an irrevocable trust with an escrow agent to provide for certain debt service payments on the refunding bonds through 2033. As a result, those portions of the bonds refunded were considered defeased and the liability for those bonds has been removed from the District's long-term debt account group. The call dates on the defeased bonds are as follows:

Series	Call Date
U/L Tax School Building Bonds, Series 2013	2/1/2022

Debt Service requirements for general obligation bonds and refunding bonds are as follows:

Year Ended August 31,	General Obligations		Total Requirements
	Principal	Interest	
2019	\$ 7,715,000	\$ 9,262,988	\$ 16,977,988
2020	7,905,000	8,955,325	16,860,325
2021	8,335,000	8,590,663	16,925,663
2022	7,540,000	8,214,656	15,754,656
2023	7,920,000	7,846,350	15,766,350
2024-2028	44,415,000	32,974,100	77,389,100
2029-2033	53,554,982	23,768,768	77,323,750
2034-2038	64,720,000	8,321,125	73,041,125
2039-2043	20,148,290	41,593,811	61,742,101
Total	\$ 222,253,272	\$ 149,527,786	\$ 371,781,058

H. LONG-TERM DEBT LOANS PAYABLE

On May 28, 2003, the District issued Southwest Independent School District Qualified Zone Academy Limited Maintenance Tax Notes, Series 2003 in the principal amount of \$8,000,000. The note bears an interest rate of 0.25% and has a final maturity date of May 28, 2018. The proceeds of the note were used to renovate and rehabilitate existing school properties.

The annual debt service principal payments made by the District are held on deposit by the fiscal agent in a segregated interest bearing fund in the District's name. The fiscal agent invests these deposits in governmental securities to ensure that the debt can be repaid with the cumulative interest earnings when the loan matures. Therefore, the District's annual payments to the fiscal agent are less than the amount outstanding. The District has provided for the investment of the Cumulative Sinking Fund Deposits with a Forward Delivery Agreement with the Bank of New York.

A summary of changes in loan payable for the year ended August 31, 2018 is as follows:

Description	Final Maturity	Interest Rate Payable	Amount Original Issue	Interest Current Year	Amounts Outstanding 9/1/2017	Issued	Retired	Amounts Outstanding 8/31/2018
Maintenance Tax Note Series 2003	2018	0.25%	\$ 8,000,000	\$ 20,000	\$ 8,000,000	\$ -	\$ 8,000,000	\$ -

I. CHANGES IN LONG-TERM LIABILITIES

Following is a summary of changes in long-term liabilities for the year ended August 31, 2018:

	Amount Outstanding 9/1/2017	Additions	Retired/ Refunded	Amounts Outstanding 8/31/2018	Due Within One Year
Bonds Payable	\$ 233,055,909	\$ 9,623,772	\$ 15,510,000	\$ 227,169,681	\$ 7,715,000
Add/(Less) Deferred Amounts:					
Net Issuance Premiums/ Discounts	25,650,144	995,771	1,383,466	25,262,449	-
Total Bonds Payable	258,706,053	10,619,543	16,893,466	252,432,130	7,715,000
Notes Payable	8,000,000	-	8,000,000	-	-
	<u>\$ 266,706,053</u>	<u>\$ 10,619,543</u>	<u>\$ 24,893,466</u>	<u>\$ 252,432,130</u>	<u>\$ 7,715,000</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2018.

J. COMMITMENTS UNDER LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of August 31, 2018, as follows:

2019	\$ 348,951
2020	302,008
2021	302,008
2022	302,008
Thereafter	<u>-</u>
Total Minimum Rentals	<u>\$ 1,254,975</u>
Rental Expenditures for Fiscal Year 2018	<u>\$ 1,154,767</u>

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The State of Texas has created a minimum personal leave program consisting of five days per year leave with no limit on accumulation and transferability among districts for every teacher regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a leave plan. Local school districts may provide additional leave beyond the state minimum. Southwest Independent School District provides an additional five to seven days per year leave above the state granted five days per year for all full-time contract employees on contracts for 210 days or more. Personal leave is not vested, therefore, upon resignation, termination or nonrenewal of contract, accumulated personal leave is not paid.

L. DEFINED BENEFIT PENSION PLAN

Plan Description. Southwest Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <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 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contributions Rates

	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 FY Employer Contributions		\$ 3,094,205
District's 2018 FY Member Contributions		\$ 7,100,321
Measurement Year NECE On-Behalf Contributions		\$ 4,170,255

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	100%		8.7%

* *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 if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$51,157,810	\$30,346,267	\$13,017,279

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, Southwest Independent School District reported a liability of \$30,346,267 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Southwest Independent School District. The amount recognized by Southwest Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Southwest Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 30,346,267
State's proportionate share that is associated with the District	<u>40,770,717</u>
Total	<u>\$ 71,116,984</u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was .0949073782% which was an increase of 0.0012946304% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, Southwest Independent School District recognized pension expense of \$3,109,828 and revenue of \$3,109,828 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2018, Southwest Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 443,980	\$ 1,636,534
Changes in actuarial assumptions	1,382,321	791,346
Net difference between projected and actual investment earnings	-	2,211,570
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	4,925,784	2,358
Contributions paid to TRS subsequent to the measurement date	3,094,205	
Total	\$ 9,846,290	\$ 4,641,808

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

Year ended August 31:	Pension Expense Amount
2019	\$ 220,351
2020	2,157,432
2021	71,521
2022	(491,716)
2023	132,289
Thereafter	20,400

M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 43,885,784,621
Less: Plan fiduciary net position	399,535,986
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

	TRS Care-1 Basic Plan	TRS Care-2 Optional Plan	TRS Care-3 Optional Plan
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

*or surviving spouse

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding Remitted by Employers	1.00%	1.25%
District's 2018 FY Employer Contributions		\$ 793,027
District's 2018 FY Member Contributions		\$ 599,384
Measurement Year NECE On-Behalf Contributions		\$ 827,666

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

The District's proportionate share of the \$212,000,000 received during the district's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

Actuarial Assumptions. The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

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:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% - 9.50%
Healthcare Trend Rates	4.50% - 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65.
Ad-hoc Post Employment Benefit Changes	None

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income 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" as of August 31, 2017.

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 (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the Net OPEB Liability:	\$58,496,260	\$49,562,674	\$42,382,086

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$41,265,878	\$49,562,674	\$60,449,117

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2018, Southwest Independent School District reported a liability of \$49,562,674 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Southwest Independent School District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 49,562,674
State's proportionate share that is associated with the District	69,228,725
Total	<u>\$ 118,791,399</u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was .1139732116% which was the same proportion measured as of August 31, 2016.

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:

1. Significant plan changes were adopted during fiscal year ending August 31, 2018. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended August 31, 2018, Southwest Independent School District recognized OPEB expense of \$(23,165,772) and revenue of \$(23,165,772) for support provided by the State.

At August 31, 2018, Southwest Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ -	\$ 1,034,658
Changes in actuarial assumptions	-	19,697,502
Net difference between projected and actual investment earnings	7,529	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	228	-
Contributions paid to TRS subsequent to the measurement date (To be calculated by employer)	793,027	-
Total	\$ 800,784	\$ 20,732,160

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

Year ended August 31:	OPEB Expense Amount
2019	\$ (2,734,608)
2020	(2,734,608)
2021	(2,734,608)
2022	(2,734,608)
2023	(2,736,490)

N. MEDICARE PART D - ON BEHALF PAYMENTS

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 the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of Southwest Independent School District for fiscal years 2016, 2017, and 2018 were \$335,542, \$270,193, and \$366,698.

O. LITIGATION

The District is occasionally involved in litigation in the general course of business. No provision for losses have been recorded in these financial statements for such contingencies.

P. HEALTH CARE COVERAGE

During the year ended August 31, 2018, employees of the District had the option of choosing between three health insurance plans and/or hospital indemnity plans. The employees were eligible to receive up to \$350 supplemental assistance per month to purchase health insurance coverage. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

Q. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The District had construction commitments at year end in the amount of \$ 7,914,289.

R. UNAVAILABLE/UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Capital Project Funds	Other Funds	Total
Local Revenue	\$ -	\$ -	\$ 600,584	\$ 600,584
State Revenue	-	-	57,843	57,843
Federal Revenue	-	-	188,729	188,729
Total Deferred Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 847,156</u>	<u>\$ 847,156</u>

S. RECEIVABLE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Fund	State Entitlements	Federal Grants	Other	Total
General Fund	\$ 2,336,850	\$ -	\$ 22,882	\$ 2,359,732
Other Funds	212,190	1,436,646	-	1,648,836
Total	<u>\$ 2,549,040</u>	<u>\$ 1,436,646</u>	<u>\$ 22,882</u>	<u>\$ 4,008,568</u>

T. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects Fund	Special Revenue Fund	Debt Service Fund	Total
Property Taxes	\$ 36,089,465	\$ -	\$ -	\$ 9,326,821	\$ 45,416,286
Penalties, Interest and Other					
Tax-related Income	393,954	-	-	102,736	496,690
Tuition and Fees	2,606	-	-	-	2,606
Investment Income	963,673	194,557	24,758	50,335	1,233,323
Rent	29,990	-	-	-	29,990
Gifts and Bequests	680,829	-	642,066	-	1,322,895
Food Sales	-	-	1,107,152	-	1,107,152
Insurance Recovery	3,684	-	-	-	3,684
Extracurricular Student Activities	187,704	-	-	-	187,704
Enterprising Activities	127,423	-	-	-	127,423
Other	984,117	-	45,869	-	1,029,986
Total	\$ 39,463,445	\$ 194,557	\$ 1,819,845	\$ 9,479,892	\$ 50,957,739

U. GENERAL FUND FEDERAL SOURCES REVENUE

Program or Source	CFDA Number	Amount
School Health and Related Services (SHARS) Program	N/A	\$ 2,136,536
Star Base Kelly	Unknown	177,228
ROTC	Unknown	147,863
Indirect Cost		370,781
		<u>\$ 2,832,408</u>

Indirect cost revenues were determined by applying approved indirect cost rates to actual applicable expenditures of federally funded grant programs.

V. WORKERS' COMPENSATION AGGREGATE DEDUCTIBLE

During the year ended August 31, 2018, Southwest ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

Southwest ISD 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, 2017, the Fund carries a discounted reserve of \$49,076,113 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2018, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors 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, 2017, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

W. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2018, Southwest ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued 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 August 31, 2018, the Fund anticipates that Southwest ISD 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 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, 2017, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

X. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Reporting for OPEB. With GASB 75, the District must assume their proportionate share of the OPEB Liability of the Teachers Retirement System of Texas TRS Care Plan. Adoption of GASB 75 required a prior adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is \$(86,907,850). The restated beginning net position is \$12,861,985.

Financial Advisory Services
Provided By:

