

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: S&P: "Applied For"
PSF Guarantee: "Applied For"
(See "OTHER PERTINENT INFORMATION – Rating" and
"THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated September 14, 2021

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Bonds under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, 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.)

\$70,208,067.25*
SOUTHWEST INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

Dated Date: October 1, 2021

Due: February 1, as shown on following page

The "Southwest Independent School District Unlimited Tax Refunding Bonds, Series 2021," which are issued in part as current interest bonds (the "Current Interest Bonds" or "CIBs") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds" or "CABs" and, together with the Current Interest Bonds the "Bonds"), as shown on page 2 of this Official Statement, are direct obligations of the Southwest Independent School District (the "District" or the "Issuer"). The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371" and together with Chapter 1207, the "Act") and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on November 17, 2020. See "THE BONDS - Authority for Issuance" herein. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

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 Texas law affecting the financing of school districts in Texas.

Interest on the CIBs will accrue from the Dated Date shown above, will be payable until stated maturity or prior redemption on February 1 and August 1 of each year commencing February 1, 2022, and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the CABs will accrete from the date of their initial delivery to the Underwriters (defined below) and will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2022 until stated maturity or prior redemption. The principal of and accreted/compounded interest on the CABs is due and payable only at stated maturity at the Maturity Value (defined below) or prior redemption at the Accreted Value (defined herein) thereof. The CIBs will be issued as fully registered obligations in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued in integral multiples of \$5,000 of Maturity Value. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount or Maturity Value, as appropriate, of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal, or Maturity Value, as appropriate, and interest on the Bonds will be payable by the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used for (1) refunding a portion of the District's outstanding bonds (the "Refunded Obligations") for debt service savings (See "SCHEDULE I – Schedule of Refunded Obligations") and (2) paying the costs of issuance of the Bonds. (See "PLAN OF FINANCING - Purpose".)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, MATURITY VALUES,
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 (the "Underwriters"), and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, ("Bond Counsel"). Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for delivery through DTC, New York, New York, on or about November 4, 2021.

RAYMOND JAMES
HILLTOP SECURITIES

FROST BANK

RBC CAPITAL MARKETS

*Preliminary, subject to change.

\$70,208,067.25*
SOUTHWEST INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

MATURITY SCHEDULE*

CUSIP ⁽¹⁾ No. Prefix: 845267

\$42,465,000
Current Interest Bonds ("CIBs")

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 ⁽¹⁾</u>	<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix ⁽¹⁾</u>
2022	\$ 1,770,000				2031	\$ 3,330,000			
2023	-				2032	-			
2024	-				2033	-			
2025	-				2034	3,885,000			
2026	945,000				2035	4,035,000			
2027	1,000,000				2036	4,205,000			
2028	2,940,000				2037	6,740,000			
2029	3,090,000				2038	7,315,000			
2030	3,210,000								

(Interest to accrue from the Dated Date)

\$27,743,067.25
Capital Appreciation Bonds ("CABs")

Stated	Original	Initial			
Maturity	Principal	Offering	Maturity	Yield to	CUSIP No.
(2/1)	Amount	Price per	Value	Maturity	Suffix ⁽¹⁾
		\$5,000			
		Maturity			
		Value			
2039	\$ 5,901,862.50				
2040	5,720,017.50				
2041	5,543,640.00				
2042	5,372,831.25				
2043	5,204,716.00				

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

The District reserves the right to redeem the CIBs maturing on and after February 1, 2031, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2030 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial CIBs of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. The CABs are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2030, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) of such redeemed CABs on the date fixed for redemption. See "THE BONDS – Redemption Provisions of the Bonds" herein.

*Preliminary, subject to change.

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT

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

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)
Sylvester Vasquez, Jr. President	21	2022
Ida Sudolcan Vice President	18	2022
Florinda Bernal Secretary	15	2024
James Sullivan, Jr. Assistant Secretary	16	2024
Pete Bernal Member	1	2023
Yolanda Garza-Lopez Member	13	2023
Daniel Carrillo Member	2 months	2024

ADMINISTRATION

Name	Position	Length of Service With the District
Dr. Lloyd Verstuyft	Superintendent of Schools	31 years
Mr. Homero Rodriguez	Deputy Superintendent	47 years
Mr. Brandon Crisp	Assistant Superintendent of Business and Finance	12 years
Ms. Dalila Garcia	Assistant Superintendent for Curriculum and Instruction	7 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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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

This Official Statement, which includes the cover page, the Schedules 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 or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

IN CONNECTION WITH 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 THE SCHEDULES AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

COVER PAGE.....	1	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT	40
ELECTED AND APPOINTED OFFICIALS.....	3	INVESTMENT POLICIES	41
USE OF INFORMATION IN THE OFFICIAL STATEMENT.....	4	AD VALOREM PROPERTY TAXATION	42
SELECTED DATA FROM THE OFFICIAL STATEMENT	5	THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT	45
INTRODUCTORY STATEMENT	7	TAX RATE LIMITATIONS.....	45
INFECTIOUS DISEASE OUTBREAK – COVID-19	7	EMPLOYEES' BENEFITS, PENSION PLAN, AND OTHER	
PLAN OF FINANCING	9	POST-EMPLOYEMENT BENEFITS	47
THE BONDS.....	10	CYBERSECURITY RISK MANAGEMENT	47
REGISTRATION, TRANSFER AND EXCHANGE	13	TAX MATTERS.....	48
BOOK-ENTRY-ONLY SYSTEM.....	14	CONTINUING DISCLOSURE OF INFORMATION	49
THE PERMANENT SCHOOL FUND		LEGAL MATTERS.....	51
GUARANTEE PROGRAM.....	16	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
STATE AND LOCAL FUNDING OF SCHOOL		PUBLIC FUNDS IN TEXAS	51
DISTRICTS IN TEXAS	35	OTHER PERTINENT INFORMATION.....	52
CURRENT PUBLIC SCHOOL FINANCE SYSTEM.....	36		
Schedule of Refunded Obligations		Schedule I	
Schedule of Accreted Values		Schedule II	
Financial Information for the Southwest Independent School District		APPENDIX A	
General Information Regarding Southwest Independent School District, and Bexar County, Texas		APPENDIX B	
Form of Legal Opinion of Bond Counsel.....		APPENDIX C	
Excerpts from the District's Audited Financial Statements for the Fiscal Year Ended August 31, 2020.....		APPENDIX D	

The cover page, subsequent pages hereof, and the schedules and 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 59,613. 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, the City of San Antonio, Texas, and Bexar County, Texas" herein.)
The Current Interest Bonds	<p>The Current Interest Bonds (or, the "CIBs") mature on February 1 in each of the years 2022 through 2038.</p> <p>Interest on the CIBs shall accrue from the Dated Date and is payable initially on February 1, 2022 and semiannually on August 1 and February 1 thereafter until stated maturity or prior redemption.</p>
The Premium Capital Appreciation Bonds	<p>The Premium Capital Appreciation Bonds (or, the "CABs" and, together with the CIBs, the "Bonds") mature on February 1 in each of the years 2039 through 2043, inclusive.</p> <p>Interest on the CABs will accrete from the date of their initial delivery to the Underwriters and will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2022, until stated maturity or prior redemption.</p>
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Security	The Bonds constitute direct obligations of the District payable from the proceeds of an annual ad valorem tax levied on all taxable property located therein, without legal limitation as to rate or amount.
Tax Matters	In the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX C – Forms of Opinion of Bond Counsel."
Redemption Provision of the Bonds	The District reserves the right to redeem the CIBs maturing on and after February 1, 2031, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 1, 2030 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. If two or more serial CIBs of consecutive maturity are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. The CABs maturing on and after February 1, 2039 are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2030, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) on the date fixed for redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein
Permanent School Fund Guarantee	The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Rating	The District has made an application to S&P Global Ratings ("S&P"), for a contract rating on the Bonds based on the payment of the Bonds being guaranteed by the State of Texas Permanent School Fund. S&P generally rates all bonds guaranteed by the Texas Permanent School Fund "AAA". (See "OTHER PERTINENT INFORMATION - Rating" and the "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" 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 November 4, 2021.
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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PRELIMINARY OFFICIAL STATEMENT
relating to

\$70,208,067.25*
SOUTHWEST INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021

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 \$70,208,067.25* Unlimited Tax Refunding Bonds, Series 2021 which are issued in part as current interest bonds (the "Current Interest Bonds" or "CIBs") and in part as premium capital appreciation bonds (the "Premium Capital Appreciation Bonds" or "CABs" and, together with the CIBs, the "Bonds").

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

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

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

INFECTIOUS DISEASE OUTBREAK - COVID-19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and phased reopening of the State. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 became effective on March 10, 2021 and remains in effect until amended, rescinded, or superseded by the Governor. On May 18, 2021, Governor Abbott issued Executive Order GA-36, which supersedes Executive Order GA-34, in part. Executive Order GA-36 prohibits governmental entities in Texas, including counties, cities, school districts, public health authorities, and government officials from requiring or mandating any person to wear a face covering and subjects a governmental entity or official to a fine of up to \$1,000 for noncompliance. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <http://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The TEA has advised districts that for the 2020-2021 school year district funding would return to being based on "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA") calculations requiring attendance to be taken. However, the TEA has crafted an approach for determining ADA during the pandemic that provides districts with several options for determining daily attendance. These include remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, districts were initially provided an ADA grace period for the first two six weeks of the 2020-2021 school year. If

a district's first two six-weeks average ADA is less than the ADA hold harmless projections (described below), the first two six-week attendance reporting periods for 2020-2021 will be excluded from the calculation of annual ADA and student full-time equivalents ("FTE") for Foundation School Program ("FSP") funding purposes and will be replaced with the ADA and FTE hold harmless projections that were derived using a three-year average trend of final numbers from the 2017-2018 through 2019-2020 school years, unless this projection is both (i) 15% higher and (ii) 100 ADA higher than the 2020-2021 legislative planning estimate ("LPE") projections provided by the TEA to the State legislature pursuant to Section 48.269 of the Texas Education Code, in which case the 2020-2021 LPE ADA and FTE will be used as the hold harmless projections.

The ADA hold harmless protection was also available for the third six-week attendance reporting period, but only for those districts that allowed on-campus instruction throughout the entire third six-week period, as further described below. The ADA hold harmless methodology will be identical to the methodology used for the first two six-week attendance reporting periods, except that the third six-week period will be examined independent of the first two six-week attendance reporting periods.

The ADA hold harmless protection was additionally extended for the remainder of the 2020-21 school year (the fourth, fifth, and sixth six-week attendance reporting periods). In order to qualify, a district must meet certain criteria established by the TEA related to on-campus participation rates during the sixth six-week attendance reporting period. A district would be eligible for the ADA hold harmless protection for the fourth, fifth, and sixth six-weeks if (1) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than 80% of all students educated during the sixth six-weeks; or (2) the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period was equal to or greater than the on-campus attendance participation rate reported by the district on the October 2020 PEIMS Fall Snapshot. This recent extension also potentially provided ADA hold harmless protection to districts that were not previously eligible for the ADA hold harmless protection during third six-weeks attendance reporting period as previously discussed. If applicable, a district can now be eligible if (1) the average on-campus participation rate during the sixth six-weeks reporting period was equal to or greater than 90% of all students educated during the sixth six-weeks; or (2) for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate of less than 50%, the average on-campus attendance participation rate during the sixth six-weeks attendance reporting period must increase by at least 20 percentage points from the on-campus attendance participation rate reported on the district's October 2020 PEIMS Fall Snapshot, or for districts with a 2020 PEIMS Fall Snapshot on-campus attendance participation rate equal to or greater than 50%, the average on-campus attendance participation rate during the sixth six-weeks reporting period must be equal to or greater than the on-campus percentage of all students educated during the sixth six-weeks that results from adding 45 percentage points to half of the on-campus attendance participation rate reported on the district's October 2020 PEIMS Fall Snapshot. For the 2021-2022 school year, the District plans to only offer on campus face-to-face instruction.

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

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the District. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds.

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

For a discussion of the impact of the Pandemic on the PSF (defined herein), see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - Infectious Disease Outbreak".

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (1) refunding a portion of the District's outstanding bonds (the "Refunded Obligations") for debt service savings (see "SCHEDULE I – Schedule of Refunded Obligations"), and (2) paying the costs of issuance of the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from funds to be deposited with UMB Bank, N.A., Austin, Texas, a national banking association (the "Escrow Agent"), pursuant to an Escrow Deposit Letter (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of early redemption. Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the date the Order was adopted, rated as to investment quality by a nationally recognized rating firm of not less than "AAA" (the "Federal Securities"). Cash and investments (if any) held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

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

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by SAMCO Capital Markets, Inc., that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

Upon the defeasance of the Refunded Obligations, the Permanent School Fund Guarantee with respect thereto will terminate.

Sources and Uses of Funds

Sources	
Par Amount of the Bonds	\$
Accrued Interest on the CIBS	
[Net] Reoffering Premium on the Bonds	
Issuer Contribution	
Total Sources of Funds	<u>\$</u>
Uses	
Escrow Fund Deposit	\$
Underwriters' Discount	
Bond Fund Deposit	
Costs of Issuance	
Total Uses	<u>\$</u>

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THE BONDS

General Description

The Bonds will be dated October 1, 2021 (the "Dated Date"). The CIBs will accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing February 1, 2022, until stated maturity or upon redemption prior to maturity. The CIBs will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -2- of this Official Statement. The CABs will accrete in value as described below from the date of their initial delivery to the Underwriters, and such interest will compound semiannually on February 1 and August 1 of each year, commencing February 1, 2022 until stated maturity or prior redemption and will be payable at stated maturity or prior redemption. The CABs will mature on the date, in the "Maturity Value" (the total principal, premium, if any, and accreted/compounded interest payable at stated maturity or prior redemption), and will accrete in value at the approximate yield based upon the initial offering price to the public set forth on page -2- of this Official Statement.

The original principal amount of a CAB plus the initial premium, if any, paid therefor with interest accreting thereon compounded semiannually to February 1 or August 1, as the case may be, next preceding the date of such calculation (or the date of calculation, if such calculation is made on February 1 or August 1), using the yield to maturity stated on page -2- of the Official Statement, means the "Accreted Value" for the CABs. For any day other than a February 1 or August 1, the "Accreted Value" of a CAB is to be determined by a straight-line interpolation between the values for the applicable semiannual compounding dates (based on 30-day months). For informational purposes, Schedule II appearing herein is a table of Accreted Values for the CABs per \$5,000 Maturity Value. Such table of Accreted Values may not reflect the actual price paid for (or the actual yield to an investor purchasing) the CABs in the secondary market.

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

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

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

Yield on Premium Capital Appreciation Bonds

The yield on the CABs is the approximate yield based on the initial offering price therefor set forth on page -2- of this Official Statement. Such offering price includes the principal amount of the CABs and the premium, if any, equal to the amount by which such offering price exceeds the principal amount of the CAB. Because of such premium, the approximate offering yield on the CABs is lower than the bond interest rates thereon. The yield on the CABs to a particular purchaser may differ depending upon the price paid by that purchaser. For various reasons, securities that do not pay interest periodically, such as the CABs, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis. A table of Accreted Values based on such initial offering price is set forth herein under Schedule II. Such Accreted Value table is provided for informational purposes, and may not reflect prices for the CABs in the secondary market.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapters 1207 and 1371, Texas Government Code, as amended (together, the "Act"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on November 17, 2020. As permitted by the provisions of the Act, the Board, in the Order, delegated the authority to certain District officials (each an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds.

Security for Payment

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

Permanent School Fund Guarantee

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

Payment Record

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

Legality

The Bonds are 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" herein).

Redemption Provisions of the Bonds

The District reserves the right to redeem the CIBs maturing on and after February 1, 2031, at the option of the District, in whole or in part, in the principal amount of \$5,000 or an integral multiple thereof, on February 1, 2030 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. Additionally, if two or more serial CIBs of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. The CABs are subject to redemption at the option of the District, prior to stated maturity, in whole or in part, in denominations of \$5,000 of Maturity Value or any integral multiple thereof, on February 1, 2030, or any date thereafter, at a redemption price equal to the Accreted Value (defined herein) of the redeemed CABs on the date fixed for redemption.

Selection of Bonds for Redemption

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

Notice of Redemption 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 District 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 OR ACCRETE. AS APPLICABLE, FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND 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 or maturity value to be redeemed, the principal amount or maturity value thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount or maturity value 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 or maturity value thereof to be redeemed, shall cease to accrue or accrete from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount or maturity value thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

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

Defeasance

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

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

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

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

Amendments

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

Default and Remedies

If the District defaults in the payment of principal, interest, maturity value, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or

disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issues such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS - Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.) The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar.

Successor Paying Agent/Registrar

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

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a CIB is the fifteenth day of the month next preceding each interest payment date. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the corporate trust office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment is the next succeeding day which is not such a day and payment on such date will have the same force and effect as if made on the original date payment was due.

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

Registration, Transferability and Exchange

In the event the Book-Entry-Only System shall be discontinued, printed bonds will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same principal amount or Maturity Value, as applicable, as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities,

through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

History and Purpose

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

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

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

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

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

Audited financial information for the SBOE (as defined herein) financial portfolios of the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The State School Land Board’s (“SLB”) land and real assets investment operations, which are part of the PSF as described below, are included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2020, filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2020 is derived from the audited financial statements of the PSF, which are included in the Annual Report when and as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2020 and for a description of the financial results of the PSF for the year ended August 31, 2020, the most recent year for which audited financial information regarding the Fund is available. The 2020 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2020 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ 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. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund that may result in changes to the annual audit prepared with respect to the Fund.

Management and Administration of the Fund

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

The Texas Constitution provides that the Fund shall be managed though the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the “Prudent Person Standard”). The SBOE has adopted a “Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund,” which is codified in the Texas Administrative Code beginning at 19 TAC section 33.1.

In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. Under the total-return investment objective, the Investment Policy provides that the PSF shall be managed consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property (the on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The Executive Administrator of the Fund is hired by and reports to the Education Commissioner. Moreover, although the Fund’s Executive Administrator and the PSF staff at TEA implement the decisions of and provide information to the School Finance/PSF Committee of the SBOE and the full SBOE, the SBOE can neither select nor dismiss the Executive Administrator. TEA’s General Counsel provides legal advice to the Executive Administrator and to the SBOE. The SBOE has also engaged outside counsel to advise it as to its duties over the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund.

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

The SBOE/PSF investment staff and the SBOE’s investment consultant for the Fund are tasked with advising the SBOE with respect to the implementation of the Fund’s asset allocation policy, including the timing and manner of the selection of any external managers and other consultants. See “2021 Legislation – SB 1232” for a discussion of proposed changes to the management of the Fund.

The SBOE contracts with a financial institution for custodial and securities lending services in addition to the performance measurement of the total return of the Fund’s financial assets managed by the SBOE. A consultant is typically retained for the purpose of providing consultation with respect to strategic asset allocation decisions and to assist the SBOE in selecting external fund management advisors. Like other State agencies and instrumentalities that manage large investment portfolios, the PSF has an incentive compensation plan that may provide additional compensation for investment personnel, depending upon the criteria relating to the investment performance of the Fund. See “2021 Legislation – SB 1232” for proposed changes in the management of the Fund that may result in changes to the employment and compensation options available to the management of the Fund.

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

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

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

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

In 2019, the Texas Legislature enacted legislation that required an annual joint meeting of the SLB and the SBOE for the purpose of discussing the allocation of the assets of the PSF and the investment of money in the PSF. The inaugural joint meeting was held in September 2020. Other legislation enacted in 2019 included a bill that created a “permanent school fund liquid account” (the “Liquid Account”) in the PSF for the purpose of receiving funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter for investment by the SBOE. That legislation also provided for the SBOE to administer and invest the Liquid Account and required the TEA, in consultation with the GLO, to conduct a study regarding distributions to the ASF from the PSF. That study (the “PSF Distribution Study”), dated August 31, 2020, is available at <https://tea.texas.gov/sites/default/files/TEA-Distribution-Study.pdf>.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment approved a fundamental change in the way that distributions are made to the ASF from the PSF. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividend income produced by Fund investments flowed into the ASF, where they were distributed to local school districts and open-enrollment charter schools based on average daily attendance, any net gains from investments of the Fund were reflected in the value of the PSF, and costs of administering the PSF were allocated to the ASF. The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a ‘total-return-based’ formula instead of the ‘current-income-based’ formula, which was used from 1964 to the end of the 2003 fiscal year. The Total Return Constitutional Amendment provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the

Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

On November 8, 2011, a referendum was held in the State at which voters of the State approved amendments that effected an increase to the base amount used in calculating the Distribution Rate from the Fund to the ASF and authorized the SLB to make direct transfers to the ASF, as described below.

The November 8, 2011 referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. Prior to November 2019, the amount authorized to be transferred to the ASF from the GLO or SLB was limited to \$300 million per year. On November 5, 2019, a constitutional amendment was approved by State voters that increased the maximum transfer to the ASF to \$600 million each year from the revenue derived during that year from the PSF from the GLO, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

<u>State Fiscal Biennium</u>	<u>2008-09</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>
<u>SBOE Distribution Rate¹</u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%

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

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

2021 Legislation - Senate Bill 1232

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

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

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

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

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

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

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

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

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

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

Asset Allocation of Fund Portfolios

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE generally reviews the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in July 2020. The Fund's Investment Policy provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income and alternative asset investments. The alternative asset allocation category includes real estate, real return, absolute return and private equity components. Alternative asset classes diversify the SBOE-managed assets and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of passively managed investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

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

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PSF Strategic Asset Allocations

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

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

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

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Comparative Investment Schedule - PSF(SBOE)¹

Fair Value (in millions) August 31, 2020 and 2019				
ASSET CLASS	August 31, 2020	August 31, 2019	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,005.8	\$1,645.8	\$ 360.0	21.9%
Domestic Large Cap	5,106.3	4,643.7	462.6	10.0%
Total Domestic Equity	7,112.1	6,289.5	822.6	13.1%
International Equity	6,380.9	5,676.3	704.6	12.4%
TOTAL EQUITY	13,493.0	11,965.8	1,527.2	12.8%
FIXED INCOME				
Domestic Fixed Income	4,232.6	4,575.2	(342.6)	-7.5%
U.S. Treasuries	918.7	-	918.7	N/A
Emerging Market Debt	2,450.7	2,410.4	40.3	1.7%
TOTAL FIXED INCOME	7,602.0	6,985.6	616.4	8.8%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,517.2	3,622.6	(105.4)	-2.9%
Real Estate	3,102.1	2,983.5	118.6	4.0%
Private Equity	4,761.5	3,872.8	888.7	22.9%
Risk Parity	1,164.9	2,557.6	(1,392.7)	-54.5%
Real Return	2,047.4	2,109.3	(61.9)	-2.9%
TOT ALT INVESTMENTS	14,593.1	15,145.8	(552.7)	-3.6%
UNALLOCATED CASH	122.9	163.3	(40.4)	-24.7%
TOTAL PSF(SBOE) INVESTMENTS	\$ 35,811.0	\$ 34,260.5	\$ 1,550.5	4.5%

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

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

In accordance with legislation enacted during 2019, the PSF has established the Liquid Account for purposes of investing cash received from the SLB to be invested in liquid assets and managed by the SBOE in the same manner it manages the PSF. That cash was previously included in the PSF valuation but was held and invested by the State Comptroller. In July 2020, the SBOE adopted an asset allocation policy for the Liquid Account (shown above), which, when adopted, was expected to be fully implemented in the first calendar quarter of fiscal year 2022. See "2021 Legislation – SB 1232" for a discussion of proposed changes in the management of the Fund that could result in the dissolution of the Liquid Account and a blending of assets held in the Liquidity Account into the general investment portfolio of the Fund.

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

Liquid Account Fair Value at August 31, 2020¹

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

¹ In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

Fair Value (in millions) August 31, 2020 and 2019				
Asset Class	As of 8-31-20	As of 8-31-19	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$1,164.0	\$1,667.6	\$(503.6)	-30.2%
Infrastructure	1,485.4	1,226.3	259.1	21.1%
Real Estate	1,174.8	1,033.6	141.2	13.7%
Internally Managed Direct				
Real Estate Investments	219.5	247.3	(27.8)	-11.2%
Total Discretionary				
Real Assets Investments	4,043.7	4,174.8	(131.1)	-3.1%
Dom. Equity Rec'd as In-Kind Distribution	0.9	1.3	(0.4)	-30.8%
Sovereign and Other Lands	408.6	372.3	36.3	9.8%
Mineral Interests	2,115.4	3,198.2	(1,082.8)	-33.9%
Cash at State Treasury ²	333.8	4,457.3	(4,123.5)	-92.5%
Total PSF(SLB)				
Investments	\$6,902.4	\$12,203.9	\$(5,301.5)	-43.4%

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of March 2021 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 6.83%. At August 19, 2021, there were 191 active open-enrollment charter schools in the State and there were 888 charter school campuses active under such charters

(though as of such date, 53 of such campuses are not currently serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Education Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or 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 Education Commissioner may not approve charter district bonds for guarantee if such guarantees will result in lower bond ratings for public school district bonds that are guaranteed under the School District Bond Guarantee Program. To be eligible for a guarantee, the Act provides that a charter district's bonds must be approved by the Attorney General, have an unenhanced investment grade rating from a nationally recognized investment rating firm, and satisfy a limited investigation conducted by the TEA.

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

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

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

The CDBG Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy various provisions of the regulations, including the following: It must (i) have operated at least one open-enrollment charter school with enrolled students in the State for at least three years; (ii) agree that the bonded indebtedness for which the guarantee is sought will be undertaken as an obligation of all entities under common control of the open-enrollment charter holder, and that all such entities will be liable for the obligation if the open-enrollment charter holder defaults on the bonded indebtedness, provided, however, that an entity that does not operate a charter school in Texas is subject to this provision only to the extent it has received state funds from the open-enrollment charter holder; (iii) have had completed for the past three years an audit for each such year that included unqualified or unmodified audit opinions; and (iv) have received an investment grade credit rating within the last year. Upon receipt of an application for guarantee under the Charter District Bond Guarantee Program, the Education Commissioner is required to conduct an investigation into the financial status of the applicant charter district and of the accreditation status of all open-enrollment charter schools operated under the charter, within the scope set forth in the CDBG 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 "CDBG Capacity"), which further increased the amount of the CDBG Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely makes available to the Charter District Bond Guarantee Program a greater share of capacity in the Guarantee Program. The CDBG Capacity is made available from the capacity of the Guarantee Program, but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

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

Prior to the issuance of the IRS Notice (defined below), the capacity of the program under the IRS Limit was limited to two and one-half times the lower of cost or fair market value of the Fund's assets adjusted by a factor that excluded additions to the Fund made since May 14, 1989. On December 16, 2009, the IRS published Notice 2010-5 (the "IRS Notice") stating that the IRS would issue proposed regulations amending the existing regulations to raise the IRS limit to 500% of the total cost of the assets held by the PSF as of December 16, 2009. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provided that the IRS Notice may be relied upon for bonds sold on or after December 16, 2009, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the "Final IRS Regulations"). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009, multiplied by five. On December 16,

2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion.

In September 2015, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The State Law Capacity increased from \$123,509,204,770 on August 31, 2019 to \$128,247,002,583 on August 31, 2020 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE is seeking changes to the existing IRS guidance regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit, but no assurances can be given that the IRS will issue guidance that would increase the IRS Limit. The implementation of the Charter School Bond Guarantee Program has also increased the total amount of guaranteed bonds.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The 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. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBGP Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity. SB 1480 provided for the implementation of the new method of calculating the CDBGP Capacity to begin with the State fiscal year that commences September 1, 2021 (the State’s fiscal year 2022) but authorized the SBOE discretion to increase the CDBGP Capacity incrementally in the intervening four fiscal years, beginning with fiscal year 2018 by up to a cumulative 20% in each fiscal year (for a total maximum increase of 80% in fiscal year 2021) as compared to the capacity figure calculated under the Act as of January 1, 2017, which it has done.

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

In addition to modifying the manner of determining the CDBGP Capacity, SB 1480 provided that the Education Commissioner’s investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules previously required the Education Commissioner to make an investigation of the accreditation status and certain financial criteria for a charter district applying for a bond guarantee, which remain in place.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it

pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At July 31, 2021, the Charter District Reserve Fund contained \$63,249,051, which represented approximately 2.02% of the guaranteed charter district bonds. In 2018, the management of the Reserve Fund was transferred from the Texas Comptroller to the PSF division of TEA, where it is held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

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

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

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

Infectious Disease Outbreak

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

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

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of July 2021, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service, S&P Global Ratings and Fitch Ratings rate bonds guaranteed by the PSF “Aaa,” “AAA” and “AAA,” respectively. Not all districts apply for multiple ratings on their bonds, however. See “Ratings” herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2016	\$30,128,037,903	\$37,279,799,335
2017	31,870,581,428	41,438,672,573
2018	33,860,358,647	44,074,197,940
2019	35,288,344,219	46,464,447,981
2020 ⁽²⁾	36,642,000,738	46,764,059,745

⁽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, 2020, mineral assets, sovereign and other lands and internally managed discretionary real estate, external discretionary real estate investments, domestic equities, and cash managed by the SLB had book values of approximately \$13.4 million, \$200.4 million, \$4,255.4 million, \$7.5 million, and \$333.8 million, respectively, and market values of approximately \$2,115.4 million, \$628.1 million, \$3,824.2 million, \$0.9 million, and \$333.8 million, respectively. At July 31, 2021, the PSF had a book value of \$38,340,467,590 and a market value of \$53,232,714,384. July 31, 2021 values are based on unaudited data, which is subject to adjustment.

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Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount ⁽¹⁾
2016	\$68,303,328,445
2017	74,266,090,023
2018	79,080,901,069
2019	84,397,900,203
2020	90,336,680,245 ⁽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⁾ At August 31, 2020 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$139,992,934,246, of which \$49,656,254,001 represents interest to be paid. As shown in the table above, at August 31, 2020, there were \$90,336,680,245 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of July 31, 2021, 5.66% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of August 31, 2020 and July 31, 2021, the amount of outstanding bond guarantees represented 77.00% and 81.07%, respectively, of the Capacity Limit (which is currently the IRS Limit). July 31, 2021 data is unaudited and is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
8/31						
2016	3,244	\$67,342,303,445	35	\$ 961,025,000	3,279	\$68,303,328,445
2017	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020 ⁽²⁾	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245

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

⁽²⁾ At July 31, 2021 (based on unaudited data, which is subject to adjustment), there were \$95,115,492,855 of bonds guaranteed under the Guarantee Program, representing 3,390 school district issues, aggregating \$91,990,680,855 in principal amount and 76 charter district issues, aggregating \$3,124,812,000 in principal amount. At July 31, 2021, the CDBG Capacity was \$6,309,019,662 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2020

The following discussion is derived from the Annual Report for the year ended August 31, 2020, including the Message of the Executive Administrator of the Fund and the Management's Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2020, the Fund's land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2020, the Fund balance was \$46.7 billion, an increase of \$0.2 billion from the prior year. This increase is primarily due to overall increases in value of all asset classes in which the Fund has invested and restatements of fund balance. During the year, the SBOE updated the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund, and initiated the strategic asset allocation for the Liquid(SBOE). The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2020, net of fees, were 7.50%, 7.55% and 8.19%, respectively, and the Liquid(SBOE) annual rate of return for the one-year period ending August 31, 2020, net of fees, was 2.35% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were -12.27%, 2.49%, and 5.15%, respectively.

The market value of the Fund's assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2020.

As of August 31, 2020, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$5.7 billion and capital commitments to private equity limited partnerships for a total of \$7.5 billion. Unfunded commitments at August 31, 2020, totaled \$2.0 billion in real estate investments and \$2.4 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2020¹		
<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(SBOE) Portfolio	7.50%	8.54%
Domestic Large Cap Equities(SBOE)	22.37	21.94
Domestic Small/Mid Cap Equities(SBOE)	3.44	2.83
International Equities(SBOE)	8.80	8.31
Emerging Market Equity(SBOE)	15.84	14.49
Fixed Income(SBOE)	5.50	6.47
Absolute Return(SBOE)	4.43	7.19
Real Estate(SBOE)	2.93	1.26
Private Equity(SBOE)	4.63	4.85
Risk Parity(SBOE)	2.41	16.20
Real Return(SBOE)	3.33	2.85
Emerging Market Debt(SBOE)	1.67	1.55
Liquid Short-Term Fixed Income(SBOE)	2.78	3.40
Liquid Transition Cash Reserves(SBOE)	1.62	1.26
Liquid Combined(SBOE)	2.35	2.04
PSF(SLB)	-12.27	N/A

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

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

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2020, the remaining commitments totaled approximately \$2.73 billion.

For fiscal year 2020, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$2.0 billion, a decrease of \$1.7 billion from fiscal year 2019 earnings of \$3.7 billion. This decrease reflects the performance of the securities markets in which the Fund was invested in fiscal year 2020. In fiscal year 2020, revenues earned by the Fund included lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio; and, other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, decreased 5.6% for the fiscal year ending August 31, 2020. This decrease is primarily attributable to a decrease in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2019 and 2020, the distribution from the SBOE to the ASF totaled \$1.2 billion and \$1.1 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2019 and 2020 totaled \$300 and \$600 million, respectively.

At the end of the 2020 fiscal year, PSF assets guaranteed \$90.3 billion in bonds issued by 872 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 7,789 school district and charter district bond issues totaling \$202.1 billion in principal amount. During the 2020 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,360. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$5.9 billion or 7.0%. The State Capacity Limit increased by \$4.7 billion, or 3.8%, during fiscal year 2020 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2020 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two State and federal capacity limits for the Guarantee Program.

Other Events and Disclosures

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

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

The TEA received an appropriation of \$30.2 million for the administration of the PSF for fiscal years 2016 and 2017, respectively, and \$30.4 million for each of the fiscal years 2018 and 2019.

As of August 31, 2020, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The SBOE has adopted an investment policy rule (the "TEA Rule") pertaining to the PSF and the Guarantee Program. The TEA Rule is codified in Section I of the TEA Investment Procedure Manual, which relates to the Guarantee Program and is posted to the TEA web site at http://tea.texas.gov/Finance_and_Grants/Texas_Permanent_School_Fund/Texas_Permanent_School_Fund_Disclosure_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 status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty

concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the current public school finance system, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). In some instances, the provisions of HB 3 and SB 2 will require further interpretation in connection with their implementation in order to resolve ambiguities contained in the bills. The District continues to analyze the provisions of HB 3 and SB 2, and monitor the on-going guidance provided by TEA. The information contained herein under the captions "Current Public School Finance System" and "Tax Rate Limitations" is subject to change, and only reflects the District's understanding of HB 3 and SB 2 based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system. Additionally, the Texas Legislature convened on January 12, 2021 and adjourned on May 31, 2021 for the State's 87th Legislative Regular Session and reconvened on July 8, 2021 for a Special Session of the State's 87th Legislature. The State Legislature may consider changes to the current laws including the public finance system, the levy and collection of ad valorem taxes, and other relevant laws.

Overview

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

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

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

Local Funding for School Districts

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

State Compression Percentage. The “State Compression Percentage” is set at 93% per \$100 of taxable value. Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%.

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

Tier One Tax Rate. A school district’s Tier One Tax Rate is defined as a school district’s M&O tax rate levied that does not exceed the school district’s MCR.

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

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

State Funding for School Districts

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school

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

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

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

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

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2020-2021 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year. Accordingly, the increase in the guaranteed yield from \$31.95 per Copper Penny per student in WADA for the 2018-2019 school year to \$49.28 per Copper Penny per student in WADA for the 2019-2020 school year requires school districts to compress their levy of Copper Pennies by a factor of 0.64834. As such, school districts that levied an Enrichment Tax Rate in excess of \$0.08 in school year 2018-2019 were required to compress the number of Copper Pennies by a factor of 0.64864 for the 2019-2020 school year.

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to

the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2020-2021 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

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

The Texas Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 ("87th Regular Session"). During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor did order a special session to commence on July 8, 2021 ("87th Special Session") and which must conclude within thirty days. The Governor's agenda for the 87th Special Session does not specifically address the school finance system, school operations or funding but does ask legislators to approve appropriations from additional available State general revenue for, among other purposes, property-tax relief. During the 87th Special Session, lawmakers must consider only the items denoted by the Governor on the agenda.

The District can make no representations or predictions regarding any actions the Legislature may take during the 87th Special Session concerning the substance or the effect of any legislation that may be passed during this special session or a future session of the Legislature.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2021-2022 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

INVESTMENT POLICIES

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

Legal Investments

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

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

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

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

Investment Policies

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

State law requires the District's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Current Investments*

As of July 15, 2021, the following percentages of the District's investable funds were invested as indicated below:

Category of Investments	Amount	Percentage
BBVA Compass Bank	\$ 16,120,417	12.00%
Federal Agency Coupons	26,500,000	19.71%
Municipal Obligations	3,000,000	2.23%
Lone Star	17,243,645	12.83%
TexPool	<u>71,562,044</u>	<u>53.23%</u>
Total	<u>\$134,426,106</u>	<u>100.00%</u>

* Unaudited.

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempted or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the appraisal district within each county (each an "Appraisal District"). Except as generally described below, each Appraisal District is required to appraise all property within such Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, each Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district's Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district's Tier Two entitlement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not vote to extend this program, which is now scheduled to expire by its terms effective December 31, 2022.

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. The 87th Texas Legislature did not vote to extend this program, which is now scheduled to expire by its terms, effective December 1, 2022 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"; see also "TEXAS LEGISLATURE" herein).

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

District and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$50 million for the 2020 tax year and \$50.6 million for the 2021 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. See "AD VALOREM TAX PROCEDURES - Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

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 15% 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 December 11, 1999 to continue the taxation of all goods-in-transit for the tax year 2012 and beyond.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

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

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

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

The District's employees participate in a retirement plan with the State of Texas (the "Plan"). The Plan is administered by the Teacher Retirement System of Texas ("TRS"). The TRS is a cost-sharing, multiple-employer defined benefit pension plan. See "Note K - Defined Pension Benefit Plan" in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX D hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRSCare"), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. See "Note L - Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2020 as set forth in APPENDIX D hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 Accounting and Financial Reporting for Pensions, which was later amended by Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015.

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

CYBERSECURITY RISK MANAGEMENT

The District's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the District continually assesses and monitors its cybersecurity risks, the District may in the future be subject to cyber-attacks from time to time. In response to such assessments and monitoring, the District takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the District has not been the victim of any cyber-

attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the District will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the District's control, including electrical telecommunications outages, natural disasters, or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the District's operations and/or financial condition.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), 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. A form of Bond Counsel's opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon the Sufficiency Certificate of the Financial Advisor regarding the sufficiency of the deposit to the Escrow Fund on the date of closing and rely upon representations and certifications of the Issuer pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Issuer with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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 Issuer 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 tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the Issuer 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 Issuer 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.

Except as described above, Bond Counsel expresses 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. 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, 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, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), 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.

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.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." 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 the tax year.

However, such interest may be required to be taken into account in determining 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, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner 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 of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. 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 the amount payable 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. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

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 2021. 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, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect Bond holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. 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 has adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in clause (12) 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 and No-Litigation Certificate

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. 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 others thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "PLAN OF FINANCING - Refunded Obligations," "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "Yield on Premium Capital Appreciation Bonds," "Payment Record," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS - M&O Tax Rate Limitations" (first paragraph only), "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" (excluding the last two sentences of this paragraph and the information under the subcaption "Litigation" as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

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.

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

Rating

The Issuer has made an application to S&P Global Ratings ("S&P") for a contract rating on the Bonds. S&P generally rates all bonds guaranteed by the Permanent School Fund of Texas "AAA" (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. A securities rating is not a recommendation to buy, sell or hold securities.

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 \$_____ (representing the par amount of the Bonds of \$_____, plus an [net] reoffering premium of \$_____, less an Underwriters' discount of \$_____), plus accrued interest on the CIBs from the Dated Date to the date of initial delivery of the Bonds.

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.

RBC Capital Markets, LLC ("RBCCM") has provided the following information for inclusion in this Official Statement. RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offerings of the District. RBCCM may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

The Underwriters 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 has been 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/

President, Board of Trustees
Southwest Independent School District

/s/

Secretary, Board of Trustees
Southwest Independent School District

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SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

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SCHEDULE I *
SCHEDULE OF REFUNDED OBLIGATIONS

SOUTHWEST INDEPENDENT SCHOOL DISTRICT

Unlimited Tax School Building Bonds, Series 2013
(Redemption Date February 1, 2022 @ par)

Current Interest Bonds				
Original Dated Date	Original Maturity (February 1)	Outstanding Principal Amount	Principal Being Refunded	Interest Rate
5/1/2013	2026	\$ 1,610,000.00	\$ 1,610,000.00	5.000%
	2027	1,700,000.00	1,700,000.00	5.000%
	2028	3,675,000.00	3,675,000.00	5.000%
	2029	3,865,000.00	3,865,000.00	5.000%
	2030	4,055,000.00	4,055,000.00	5.000%
	2031	4,270,000.00	4,270,000.00	5.000%
	2032	1,000,000.00	1,000,000.00	5.000%
	***	***	***	***
	2034	4,920,000.00	4,920,000.00	3.500%
	2035 ⁽¹⁾	5,130,000.00	5,130,000.00	5.000%
	2036 ⁽¹⁾	5,395,000.00	5,395,000.00	5.000%
	2037 ⁽¹⁾	8,085,000.00	8,085,000.00	5.000%
	2038 ⁽¹⁾	8,870,000.00	8,870,000.00	5.000%
		<u>\$ 52,575,000.00</u>	<u>\$ 52,575,000.00</u>	

* Preliminary, subject to change.

⁽¹⁾ Represents a mandatory sinking fund redemption payment of a term bond maturing February 1, 2038.

Capital Appreciation Bonds		
Original Maturity (February 1)	Principal Amount Being Refunded ⁽¹⁾	Maturity Amount Being Refunded
2039	\$ 3,874,421.60	\$ 11,795,000.00
2040	3,690,575.55	11,795,000.00
2041	3,513,966.40	11,795,000.00
2042	3,353,908.25	11,795,000.00
2043	3,200,455.30	11,795,000.00
	<u>17,633,327.10</u>	<u>\$ 58,975,000.00</u>

* Preliminary, subject to change.

⁽¹⁾ Redemption Date: February 1, 2021 at a price equal to the accreted value on the date of redemption.

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SCHEDULE II

ACCREDITED VALUE TABLE

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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

2021 Certified Market Value of Taxable Property (100% of Market Value).....	\$ 5,507,230,400
Less Exemptions:	
\$25,000 Homestead Exemption.....	\$ 253,256,143
\$10,000 Over-65/Disabled Homestead.....	34,589,046
Disabled and Deceased Veterans' Exemptions.....	83,530,299
Productivity Loss.....	356,476,053
Pollution Control.....	49,373,608
10% Residential Cap.....	85,576,415
TOTAL EXEMPTIONS	<u>862,801,564</u>
2021 Certified Assessed Value of Taxable Property.....	<u>\$ 4,644,428,836</u> *

* Includes frozen taxable value of \$277,576,188.

Source: Bexar Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of August 1, 2021)

General Obligation Debt Outstanding:

Unlimited Tax Refunding Bonds, Series 2005.....	\$ 6,110,000	
Unlimited Tax School Building Bonds, Series 2013.....	-	(1)*
Unlimited Tax School Building and Refunding Bonds, Series 2014.....	77,185,000	
Unlimited Tax Refunding Bonds, Series 2016.....	9,865,000	
Unlimited Tax School Building and Refunding Bonds, Series 2016.....	25,855,000	
Unlimited Tax Refunding Bonds, Series 2017	7,809,972	
Unlimited Tax School Building Bonds, Series 2019.....	72,075,000	
The Bonds	<u>70,208,067</u>	*
Total Unlimited Tax Debt Outstanding.....	<u>\$ 269,108,040</u>	*
2021 Certified Net Assessed Valuation	\$ 4,644,428,836	
Ratio of Total Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	5.79%	*(2)

District Population: Estimated 2021 -63,458

Per Capita Certified Net Taxable Assessed Valuation - \$73,189.02

Per Capita Gross General Obligation Debt Principal - \$4,240.73

* Preliminary, subject to change.

(1) Excluded the Refunded Obligations.

(2) 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, 2020 as follows:

2021	\$ 350,790
2022	348,590
2023	44,200
2024	18,417
2025	-
Thereafter	-
Total Minimum Rentals	<u>\$ 761,997</u>
Rental Expenditures for the	
Fiscal Year Ended 2020	<u>\$ 943,394</u>

Source: The Issuer's Annual Financial Report for the Fiscal Year Ended August 31, 2020.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8-31	Current Total Outstanding	Less: Refunded	The Bonds*			Combined	Projected	Total Net
	Debt	Debt Service*	Principal	Interest ^(a)	Total	Debt Service*	State Aid ^(b)	Debt Service*
2022	\$ 19,690,706	\$ 3,028,450	\$ 1,770,000	\$ 1,308,583	\$ 3,078,583	\$ 19,740,840	\$ 1,077,062	\$ 18,663,778
2023	19,699,150	3,028,450	-	1,534,900	1,534,900	18,205,600	863,388	17,342,212
2024	19,204,013	3,028,450	-	1,534,900	1,534,900	17,710,463	837,705	16,872,758
2025	19,570,788	3,028,450	-	1,534,900	1,534,900	18,077,238	855,053	17,222,184
2026	18,935,325	4,598,200	945,000	1,511,275	2,456,275	16,793,400	794,328	15,999,072
2027	18,935,350	4,605,450	1,000,000	1,462,650	2,462,650	16,792,550	794,288	15,998,262
2028	19,242,150	6,446,075	2,940,000	1,364,150	4,304,150	17,100,225	808,841	16,291,384
2029	19,233,825	6,447,575	3,090,000	1,213,400	4,303,400	17,089,650	808,340	16,281,310
2030	19,229,575	6,439,575	3,210,000	1,088,000	4,298,000	17,088,000	808,262	16,279,738
2031	19,239,350	6,446,450	3,330,000	973,250	4,303,250	17,096,150	808,648	16,287,502
2032	19,245,775	6,447,450	-	906,650	906,650	13,704,975	648,245	13,056,730
2033	19,236,425	6,442,325	-	906,650	906,650	13,700,750	648,045	13,052,705
2034	19,315,125	6,443,350	3,885,000	828,950	4,713,950	17,585,725	831,805	16,753,920
2035	19,315,825	6,439,000	4,035,000	670,550	4,705,550	17,582,375	831,646	16,750,729
2036	19,317,350	6,440,875	4,205,000	505,750	4,710,750	17,587,225	831,876	16,755,349
2037	17,251,650	8,793,875	6,740,000	320,550	7,060,550	15,518,325	734,017	14,784,308
2038	15,469,975	10,388,375	7,315,000	109,725	7,424,725	12,506,325	591,549	11,914,776
2039	16,221,650	11,795,000	5,901,863	4,223,138	10,125,000	14,551,650	688,293	13,863,357
2040	16,201,375	11,795,000	5,720,018	4,404,983	10,125,000	14,531,375	687,334	13,844,041
2041	16,183,450	11,795,000	5,543,640	4,581,360	10,125,000	14,513,450	686,486	13,826,964
2042	16,167,725	11,795,000	5,372,831	4,752,169	10,125,000	14,497,725	685,742	13,811,983
2043	16,144,225	11,795,000	5,204,716	4,915,284	10,120,000	14,469,225	684,394	13,784,831
2044	3,833,050	-	-	-	-	3,833,050	181,303	3,651,747
2045	3,834,050	-	-	-	-	3,834,050	181,351	3,652,699
2046	3,836,975	-	-	-	-	3,836,975	181,489	3,655,486
2047	3,836,750	-	-	-	-	3,836,750	181,478	3,655,272
2048	3,833,375	-	-	-	-	3,833,375	181,319	3,652,056
2049	3,836,700	-	-	-	-	3,836,700	181,476	3,655,224
Total	\$ 426,061,681	\$ 157,467,375	\$ 70,208,067	\$ 40,651,766	\$110,859,833	\$379,454,140	\$ 18,093,764	\$ 361,360,375

^(a) Interest calculated at an assumed rate for illustrative purposes only.

^(b) State Aid calculated at 4.73% on existing debt.

* Preliminary, subject to change.

TAX ADEQUACY

2021 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$	4,366,852,648
Maximum Projected Annual Net Debt Service Requirements (Fiscal Year Ending 8-31-2021)		\$ 18,663,778 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Net Debt Service requirements		\$ 0.436119 *

* Includes the Bonds and Excludes the Refunded Obligations, preliminary and subject to change.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Unaudited Interest and Sinking Fund Balance, Fiscal Year Ended August 31, 2021	\$	3,501,311
2021 Interest and Sinking Fund Tax Levy at 98% Collections produce ⁽¹⁾		19,936,220 ⁽¹⁾
Plus: Instructional Facilities Allotment ⁽²⁾		54,829 ⁽²⁾
Plus: Existing Debt Allotment ⁽²⁾		1,022,233 ⁽²⁾
Total Available for General Obligation Debt	\$	24,514,593
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 8/31/2022		19,740,840 *
Estimated Surplus at Fiscal Year Ending 8/31/2021	\$	4,773,753

⁽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. State Aid, shown above, is based upon State payments of 4.73% of the annual debt service payment.

* Includes the Bonds and excludes the Refunded Obligations; preliminary and subject to change.

CLASSIFICATION OF ASSESSED VALUATION
TABLE 3

	2021	% of Total	2020	% of Total	2019	% of Total
Real, Residential, Single-Family	\$ 2,614,269,093	0.474697607	\$ 2,305,396,054	45.87%	\$ 2,051,524,056	43.44%
Real, Residential, Multi-Family	14,504,695	0.26%	10,646,565	0.21%	9,455,395	0.20%
Real, Vacant Lots/Tracts	81,541,772	1.48%	79,602,291	1.58%	75,331,332	1.60%
Real, Acreage (Land Only)	366,277,824	6.65%	347,182,691	6.91%	317,025,833	6.71%
Real, Farm and Ranch Improvements	247,927,146	4.50%	218,459,052	4.35%	209,520,225	4.44%
Real, Commercial	526,780,599	9.57%	497,983,419	9.91%	466,694,819	9.88%
Real, Industrial	449,119,064	8.16%	393,052,934	7.82%	377,607,732	8.00%
Real, Minerals Oil and Gas	2,481,469	0.05%	3,296,729	0.07%	2,874,253	0.06%
Real & Tangible, Personal Utilities	50,346,853	0.91%	48,159,104	0.96%	47,242,054	1.00%
Tangible Personal, Commercial	392,645,429	7.13%	275,694,058	5.49%	290,312,300	6.15%
Tangible Personal, Industrial	611,390,443	11.10%	719,848,356	14.32%	793,822,032	16.81%
Tangible Personal, Mobile Homes	59,692,238	1.08%	55,725,674	1.11%	53,970,686	1.14%
Residential Inventory	70,203,485	1.27%	53,130,219	1.06%	12,562,436	0.27%
Special Inventory	20,050,290	0.36%	17,821,530	0.35%	14,801,130	0.31%
Total Appraised Value	\$ 5,507,230,400	100.00%	\$ 5,025,998,676	100.00%	\$ 4,722,744,283	100.00%
Less:						
\$25,000 Homestead Exemption	\$ 253,256,143		\$ 244,728,268		\$ 241,244,045	
\$10,000 Over-65/Disabled Homestead	34,589,046		40,242,817		31,553,096	
Disabled and Deceased Veterans'	83,530,299		68,722,503		57,506,839	
Productivity Loss	356,476,053		338,228,734		313,037,096	
Pollution Control	49,373,608		42,280,977		49,722,428	
10% Residential Cap	85,576,415		84,470,497		78,890,944	
Net Taxable Assessed Valuation	\$ 4,644,428,836		\$ 4,207,324,880		\$ 3,950,789,835	

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 Current	% of Collections Total	Year Ended
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	96.82%	97.95%	8/31/2019
2019	3,950,789,835	1.4730	58,194,186	97.06%	98.34%	8/31/2020
2020	4,207,324,880	1.4380	60,501,500	93.56%	96.71%	8/31/2021 *
2021	4,644,428,836	1.3739	63,810,291	(In Process of Levy)		8/31/2022

⁽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.

* Collections as of June 30, 2021.

TAX RATE DISTRIBUTION
TABLE 5

	2021 ⁽¹⁾	2020	2019	2018	2017	2016 ⁽²⁾
General Fund	\$ 0.93590	\$ 0.99990	\$ 1.03487	\$ 1.11836	\$ 1.17000	\$ 1.17000
I & S Fund	0.43801	0.43810	0.43810	0.35464	0.28070	0.30300
Total Tax Rate	\$ 1.37391	\$ 1.43800	\$ 1.47298	\$ 1.47300	\$ 1.45070	\$ 1.47300

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⁾ Represents the District's upcoming tax rate currently in process of adoption.

⁽²⁾ The District held a successful tax ratification election on September 10, 2016.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2021
TABLE 6

Year	Net Taxable Assessed Valuation	Change From Preceding Year Amount (\$)	Percent
2012-13	\$ 1,542,918,418	---	---
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	3,950,789,835	30,825,875	0.79%
2020-21	4,207,324,880	256,535,045	6.49%
2021-22	4,644,428,836	437,103,956	10.39%

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	% of Total 2020	
		2020 Net Taxable Assessed Valuation	Assessed Valuation
Toyota Motor Mfg Texas Inc.	Automobile Manufacturing	\$ 534,949,082	12.71%
Maruchan Texas Inc	Food Processing/Manufacturing	355,025,390	8.44%
Toyotsu Texas Inc.	Automobile Manufacturing	84,727,360	2.01%
Well Services a Div of Schlumber	Oilfield Services	66,346,980	1.58%
Lex SanAn LP	Distribution Warehouse	63,036,630	1.50%
Toyoda GOSEI Texas LLC	Plastic Manufacturing	48,000,000	1.14%
Union Pacific Railroad Co	Railroad	38,920,760	0.93%
BV Carrier LP	Air Conditioning Manufacturing	38,500,000	0.92%
Carrier Corporation	Air Conditioning Manufacturing	36,693,200	0.87%
Futaba Industrial Tx Corp	Manufacturing of Auto Parts	29,575,840	0.70%
		<u>\$ 1,295,775,242</u>	<u>30.80% ⁽¹⁾</u>

Source: Bexar Appraisal District.

⁽¹⁾ As shown in the table above, the top ten taxpayers in the District account for in excess of 30% 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 this Official Statement.

ESTIMATED OVERLAPPING DEBT INFORMATION

Taxing Body	Gross Debt (As of 8/1/2021)	% Overlapping	Amount Overlapping
Alamo Community Colleges	\$ 590,510,000	2.31%	\$ 13,640,781
Bexar County	1,897,440,000	2.31%	43,830,864
Bexar County Hospital District	902,130,000	2.31%	20,839,203
San Antonio, City of	2,056,995,000	2.12%	43,608,294
Von Ormy, City of	307,000	100.00%	307,000
Total Net Overlapping Debt			<u>\$ 122,226,142</u>
Southwest ISD			\$ 269,108,040 *
Total Gross Direct and Overlapping Debt			<u>\$ 391,334,182 *</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			8.43%
Per Capita Direct and Overlapping Debt			\$ 6,166.82 *

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

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

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

Governmental Subdivision	2020 Assessed Valuation	2020 Tax Rate	Date of Authorization	Purpose	Amount Issued		
					Authorized	To-Date	Unissued
Alamo CCD	\$ 186,455,022,211	\$ 0.019600	5/6/2017	College Facility	\$ 450,000,000	\$ 398,000,000	\$ 52,000,000
Bexar Co	182,629,182,936	0.289000	11/4/2003	Jail, Parks, Pub Safety	99,246,000	49,981,000	\$ 49,265,000
Bexar Co Hospital District	188,459,827,861	0.276000	None				
Von Ormy, City of	48,428,662	0.231000	None				
San Antonio, City of	127,708,051,299	0.558000	5/6/2017	Street and Bridge	445,263,000	352,468,573	92,794,427
				Flood Control	138,988,000	108,703,908	30,284,092
				Parks and Rec	187,313,000	161,881,130	25,431,870
				Library	24,025,000	19,843,193	4,181,807
				Public Safety	34,411,000	31,093,196	3,317,804
				Neighborhood Dev.	20,000,000	20,000,000	-
			5/12/2012	Street and Bridge	337,441,000	333,441,000	4,000,000
					<u>\$1,187,441,000</u>	<u>\$1,027,431,000</u>	<u>\$ 160,010,000</u>
Southwest ISD	4,207,324,880	1.438004	None				

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				
	8/31/2020*	8/31/2019	8/31/2018	8/31/2017	8/31/2016
Fund Balance - Beginning of Year	\$ 70,855,023	\$ 63,156,569	\$ 67,355,532	\$ 65,880,252	\$ 68,731,105
Revenues:					
Local and Intermediate Sources	42,265,630	46,779,977	39,463,445	38,600,072	33,482,347
State Sources	97,100,090	83,820,426	88,345,622	81,032,996	88,187,419
Federal Sources & Other	4,346,707	4,339,160	2,832,408	2,219,935	931,170
Total Revenues	\$ 143,712,427	\$ 134,939,563	\$ 130,641,475	\$ 121,853,003	\$ 122,600,936
Expenditures:					
Instruction	\$ 75,655,272	\$ 70,379,706	\$ 68,957,117	\$ 66,906,701	\$ 67,224,112
Instructional Resources & Media Services	2,213,986	2,656,508	2,236,420	2,313,711	2,265,785
Curriculum & Instructional Staff Development	1,538,381	1,124,577	1,074,084	1,098,549	1,192,801
Instructional Leadership	3,001,456	2,879,509	2,773,424	2,558,135	3,071,905
School Leadership	8,170,322	8,235,465	7,890,399	7,407,251	7,210,313
Guidance, Counseling & Evaluation Services	4,099,199	3,931,495	3,685,204	3,535,487	3,331,440
Social Work Services	2,151,342	961,270	1,318,173	1,178,272	1,120,602
Health Services	1,918,708	1,664,614	1,600,214	1,485,613	1,263,139
Student (Pupil) Transportation	6,724,399	5,201,995	5,206,029	4,931,353	4,272,622
Food Services	491,418	425,666	389,842	259,695	241,293
Cocurricular/Extracurricular Activities	4,824,472	4,237,261	4,411,247	5,303,032	3,478,737
General Administration	4,590,664	4,646,734	4,359,977	4,067,851	3,693,607
Plant Maintenance and Operations	14,401,560	13,635,120	13,813,884	12,982,039	12,050,243
Security and Monitoring Services	1,675,966	1,507,505	1,295,650	1,379,167	1,085,751
Data Processing Services	1,939,079	1,855,524	1,887,715	1,734,622	1,673,791
Community Services	416,236	344,639	351,548	316,528	338,431
Debt Service – Principal on long-term debt	-	-	8,000,000	-	-
Debt Service – Interest on long term debt	-	-	19,144	20,000	20,000
Debt Service – Bond Issuance Cost and Fees	800	800	1,200	3,600	4,400
Facilities Acquisition and Construction	1,469,878	3,279,121	1,361,924	2,514,494	11,562,155
Payments to Shared Service Arrangements	-	-	4,891	83,486	-
Payments to Juvenile Justice Alternative Ed. Prog.	7,743	4,619	-	36,000	120,906
Other Intergovernmental Charges	371,893	285,170	202,352	262,137	229,756
Total Expenditures	\$ 135,662,774	\$ 127,257,298	\$ 130,840,438	\$ 120,377,723	\$ 125,451,789
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 8,049,653	\$ 7,682,265	\$ (198,963)	\$ 1,475,280	\$ (2,850,853)
Other Financing Sources and (Uses):					
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	16,189	(4,000,000)	-	-
Special Item Resource	-	-	-	-	-
Special Item	-	-	-	-	-
Total Other Financing Sources and (Uses)	\$ -	\$ -	\$ (4,000,000)	\$ -	\$ -
Net Change in Fund Balance	\$ 8,049,653	\$ 7,698,454	\$ (4,198,963)	\$ 1,475,280	\$ (2,850,853)
Fund Balance - End of Year	\$ 78,904,676	\$ 70,855,023	\$ 63,156,569	\$ 67,355,532	\$ 65,880,252

Source: The Issuer's Annual Financial Reports.

* The District anticipates ending the fiscal year ending August 31, 2021 with an unaudited general fund balance of \$72,853,045. The drawdown in fund balance is due to COVID related spending and the District anticipates being reimbursed Emergency and Secondary School Relief and other grant fund programs which may ultimately add to fund balance. The timing of receipt of the funds/grants is unknown by the District at this time.

Information regarding the District pension plan can be found in the District's Annual Financial Report for the Year Ended August 31, 2020 under "Note K - Defined Benefit Pension Plan".

APPENDIX B

GENERAL INFORMATION REGARDING THE SOUTHWEST INDEPENDENT SCHOOL DISTRICT, THE CITY OF SAN ANTONIO, TEXAS AND BEXAR COUNTY, TEXAS

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

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 12 years total teaching experience and 8 years' experience in the District. Their experience is enhanced by the quality of their education; 32% of the teachers hold Master's degrees and 1% hold Doctorate degrees. The District employs a total of 951 teachers.

Other Employees

In addition to 951 teachers, the District employs 56 administrators, 220 professional support, 679 auxiliary personnel, and 143 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	2088	136
Southwest Legacy High School	2,500	1976	131
McNair Middle School	1,595	754	52
McAuliffe Middle School	1,450	737	55
Resnik Middle School	1,595	814	56
Southwest Elementary School	880	579	42
Sun Valley Elementary School	880	615	44
Indian Creek Elementary School	880	486	37
Bob Hope Elementary School	550	438	37
Sky Harbour Elementary School	880	506	39
Hidden Cove Elementary School	880	471	39
Big Country Elementary School	880	680	44
Scobee Middle School	1,565	841	59
Elm Creek Elementary School	880	680	45
Kriewald Road Elementary School	880	533	37
Spicewood Park Elementary School	880	478	35
Medio Creek Elementary School	880	559	46
Southwest CAST Stem High School	1,100	239	17
Totals	22,655	13,474	951

HISTORICAL ENROLLMENT

ENROLLMENT BY GRADE

Grade	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
EC	51	56	55	37	53	42	51	63	81	71	102	75
P-K	358	349	428	407	441	450	450	566	560	609	735	521
K	861	893	933	1,017	966	948	940	866	867	829	841	860
1	995	959	1,008	1,016	1,097	1,041	1,012	973	881	907	879	857
2	912	987	970	1,018	1,045	1,097	1,041	1,023	993	905	923	885
3	929	939	1,011	1,013	1,035	1,065	1,121	1,032	1,063	1,002	921	907
4	974	942	949	1,053	1,016	1,039	1,081	1,123	1,061	1,072	1,041	910
5	877	951	983	994	1,075	1,044	1,089	1,097	1,137	1,081	1,105	1,010
6	878	894	1,018	1,034	967	1,040	1,050	1,111	1,040	1,086	1,108	1,033
7	857	875	918	1,049	1,023	972	1,040	1,073	1,124	1,037	1,103	1,009
8	823	896	905	945	1,082	1,051	959	1,091	1,068	1,134	1,053	1,104
9	965	845	950	986	1,005	1,126	1,118	1,056	1,193	1,196	1,230	1,149
10	772	873	827	933	967	972	1,043	1,025	972	1,094	1,102	1,188
11	677	726	815	765	822	852	897	968	958	840	1,028	1,024
12	602	630	689	757	725	789	800	823	875	895	793	942
Totals	11,531	11,815	12,459	13,024	13,319	13,528	13,692	13,890	13,873	13,758	13,964	13,474

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 County is the fourth most populous of 254 counties in the State of Texas with a 2020 population of 2,003,554. The County has an area of approximately 1,248 square miles and contains 27 incorporated cities within its boundaries.

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 for June 2021 was 6.2%, up from 3.4% the same month in 2019.

Labor Force Statistics ⁽¹⁾

	2021 ⁽²⁾	2020 ⁽³⁾	2019 ⁽³⁾	2018 ⁽³⁾
Civilian Labor Force	964,464	942,127	943,335	935,933
Total Employed	911,101	871,017	913,638	904,406
Total Unemployed	53,363	71,110	29,697	31,527
% Unemployment	5.5%	7.5%	3.1%	3.4%
Texas Unemployment	6.0%	7.6%	3.5%	3.9%

(1) Source: Texas Workforce Commission.

(2) As of July 2021.

(3) Average Annual Statistics.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Norton Rose Fulbright US LLP
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DRAFT

IN REGARD to the authorization and issuance of the “Southwest Independent School District Unlimited Tax Refunding Bonds, Series 2021” (the *Bonds*), dated August 1, 2021, in the aggregate original principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the 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) in part as “Current Interest Bonds” (totaling in original principal amount of \$_____) and in part as “Premium Capital Appreciation Bonds” (in original principal amount of \$_____). The Current Interest Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, inclusive, and February 1, 20__ through 20__, inclusive, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Current Interest Bonds. The Premium Capital Appreciation Bonds have Stated Maturities of February 1 in each of the years 20__ through 20__, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Premium Capital Appreciation Bonds. Interest on the Bonds accrues or accretes from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order, the Escrow and Trust Agreement (the *Escrow Agreement*) between the Issuer and UMB Bank, N.A., Austin, Texas (the *Escrow Agent*), and a special report (the *Report*) of _____, _____, _____ (the *Verification Agent*), concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an

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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 REFUNDING BONDS, SERIES 2021”

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

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

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

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

APPENDIX D

EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2020

(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, 2020, 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, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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's Contributions for Pensions, Schedule of the District's Proportionate Share of the Net OPEB Liability, and Schedule of District's Contributions for Other Post-Employment Benefits on pages 6–16 and 56–62 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 regulations 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 16, 2020, 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 16, 2020

**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, 2020. 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, 2020 by \$30,556,053 (*net position*). Of this amount, (\$20,365,509) is reported as *unrestricted net position* and may be used to meet the District's ongoing obligations. *Restricted net position* consists of \$2,599,311 for debt service, \$2,404,970 for state and federal programs, and \$2,298,457 for other purposes. The remaining amount of \$43,618,824 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 decreased by a total of \$24,727.
- * The general fund reported a fund balance of \$78,904,676 at August 31, 2020. The unrestricted, uncommitted amount was \$49,622,238 or 36.58% of total general fund expenditures.
- * The District's total expenditures for its government-wide activities in the current year was \$193,273,122 compared to the prior year of \$178,878,235, increasing by \$14,394,887. The continued reporting of GASB 68 (TRS Pension) and GASB 75 (OPEB) increased expenses in the current year by \$11,225,899 compared to the prior year \$7,867,821, increasing by \$3,358,078. After factoring in the adjustments for GASB 68 & GASB 75 and removing those expenses, residual expenses for the District increased \$11,036,809.

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 23 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, debt service fund, and capital projects fund, all of which are considered to be major funds. Data from the other 20 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, 2020 was \$30,556,053. (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 \$(20,365,509) represents the *unrestricted net position* that may be used to meet the District's ongoing obligations and programs. Recognition of GASB 68 (Pensions) and GASB 75 (OPEB) have reduced unrestricted net position to a negative amount.

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

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

	<u>August 31, 2020</u>	<u>August 31, 2019</u>	<u>Variance</u>
Current and other assets	\$ 161,416,666	\$ 162,902,821	\$ (1,486,155)
Capital and non-current assets	293,803,282	289,201,429	4,601,853
Total Assets	<u>455,219,948</u>	<u>452,104,250</u>	<u>3,115,698</u>
Deferred outflows	32,095,741	35,194,324	(3,098,583)
Current liabilities	15,873,338	10,630,861	5,242,477
Long term liabilities	406,548,491	422,061,724	(15,513,233)
Total Liabilities	<u>422,421,829</u>	<u>432,692,585</u>	<u>(10,270,756)</u>
Deferred inflows	34,337,807	24,025,209	10,312,598
Net position:			
Net investment in capital assets	43,618,824	46,287,288	(2,668,464)
Restricted	7,302,738	6,724,379	578,359
Unrestricted	(20,365,509)	(22,430,887)	2,065,378
Total Net Position	<u>\$ 30,556,053</u>	<u>\$ 30,580,780</u>	<u>\$ (24,727)</u>

Changes in net position

At the end of the current fiscal year, the District was able to report increases in two of three categories of net position. The total decrease in net position during the year was \$24,727.

- * Net investment in capital assets decreased by \$2,668,464.
- * Restricted net position increased by \$578,359.
- * Unrestricted net position increased by \$2,065,378.

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

Governmental Activities

The District's total revenues were \$193,248,395. (See Table A-2). A significant portion, 68 percent, comes from operating grants and contributions, and grants and contributions not restricted; 28 percent from taxes and only 4 percent relates to charges for services, investment earnings and other revenues.

The total cost of all programs and services was \$193,273,122 with 72 percent representing costs for instructional and student support services.

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

- * Property tax revenues increased by \$353,281.
- * Grants and contributions increased by \$15,038,915.

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

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

Revenues:	August 31, 2020	August 31, 2019	Variance
Program Revenues:			
Charges for services	\$ 2,182,180	\$ 2,780,977	\$ (598,797)
Operating grants and contributions	22,010,945	19,724,026	2,286,919
General Revenues:			
Maintenance and operations taxes	39,177,143	42,080,899	(2,903,756)
Debt service taxes	16,602,261	13,345,224	3,257,037
Grants and contributions (not restricted)	20,201,498	19,362,517	838,981
State aid formula grants	89,943,884	78,030,869	11,913,015
Investment earnings	1,827,678	1,923,920	(96,242)
Miscellaneous	1,302,806	2,291,186	(988,380)
Total Revenue	<u>\$ 193,248,395</u>	<u>\$ 179,539,618</u>	<u>\$ 13,708,777</u>
Expenses:			
Instruction, curriculum and media services	\$ 109,042,391	\$ 101,217,703	\$ 7,824,688
Instructional and school leadership	13,271,488	12,900,696	370,792
Student support services	17,203,585	14,042,373	3,161,212
Food services	10,192,607	10,395,244	(202,637)
Co curricular activities	5,303,144	4,783,639	519,505
General administration	4,941,437	4,926,929	14,508
Plant maintenance, security and data processing	20,714,806	19,490,595	1,224,211
Community services	566,993	476,869	90,124
Debt service	11,199,145	9,935,447	1,263,698
Facilities acquisition and construction	367,250	297,245	70,005
Payments to fiscal agent-shared service	470,276	411,495	58,781
Total Expenses	<u>\$ 193,273,122</u>	<u>\$ 178,878,235</u>	<u>\$ 14,394,887</u>
Change in net position	(24,727)	661,383	(686,110)
Net position - beginning	30,580,780	29,919,397	661,383
Prior period adjustment	-	-	-
Net position - ending	<u>\$ 30,556,053</u>	<u>\$ 30,580,780</u>	<u>\$ (24,727)</u>

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

The cost of all governmental activities this year was \$193,273,122. However, as shown above in Table A-2, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$55,779,404 (property taxes) because costs in the amount of \$24,193,125 were paid by those who directly benefitted from the programs, and \$89,943,884 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 \$49,622,238, while total fund balance reached \$78,904,676.

* The District's general fund increased by \$8,049,653 from the prior year.

Revenues from governmental fund types totaled \$187,574,629. The net increase of \$12,269,844 in revenues is a result of the increase in local, state and federal revenues.

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 \$8,124,519, or 5.61%. A large portion of this increase was funding for 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, 2020 amounted to \$293,803,282 (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:

- * Purchase of school busses
- * Purchase of technology devices
- * Purchase of fine arts equipment
- * Replacement of field lighting in various areas of the District
- * Replacement of chiller system at Scobee Middle School

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

	<u>August 31, 2020</u>	<u>August 31, 2019</u>	<u>Variance</u>
Land	\$ 7,054,580	\$ 7,054,580	\$ -
Buildings and improvements	426,061,066	413,480,679	12,580,387
Furniture and equipment	34,468,288	30,368,077	4,100,211
Construction in progress	<u>15,943,596</u>	<u>13,026,882</u>	<u>2,916,714</u>
Totals at historical cost	483,527,530	463,930,218	19,597,312
Total accumulated depreciation	<u>(189,724,248)</u>	<u>(174,728,789)</u>	<u>(14,995,459)</u>
Net capital assets	<u>\$ 293,803,282</u>	<u>\$ 289,201,429</u>	<u>\$ 4,601,853</u>

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

The District's local 2020-2021 capital budget encompasses various capital projects across the District. These projects are financed through bond funds and local funds.

The District will continue to spend monies from its 2019 Bond Series on projects that include:

- Southwest High School Phase III Renovation Project
- Southwest ISD Natatorium Project
- Scobee Middle School Renovation Project
- District Technology Purchases
- District School Bus Replacement

The District anticipates spending fund balance on the following:

- District School Bus Replacement
- PPE Supplies for COVID-19

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 \$310,606,412 versus \$318,468,229 in the prior year, a decrease of 2.47 percent (See Table A-4). Additional information on the District's long-term debt can be found in Notes G through H in the notes to the financial statements.

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

	<u>August 31, 2020</u>	<u>August 31, 2019</u>	<u>Variance</u>
Bonds payable	\$ 285,171,199	\$ 292,061,895	\$ (6,890,696)
Unamortized premiums/discounts	<u>24,975,486</u>	<u>26,406,334</u>	<u>(1,430,848)</u>
Total Long-Term Debt	<u>\$ 310,146,685</u>	<u>\$ 318,468,229</u>	<u>\$ (8,321,544)</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 taxable value of all property used for the 2020-2021 budget preparation will increase approximately \$212,258,048 from the previous tax year.
- * The District's 2020-2021 enrollment and average daily attendance (ADA) is expected to decrease due to COVID-19. The District will continue to monitor ADA trends and may seek relief from TEA through the hold harmless extension. This hold harmless extension includes minimum funding guarantees established for the pandemic on attendance for up to three six weeks periods.
- * The total general fund budget for 2020-2021 is \$148,269,915 which is a 2% increase over the 2019-2020 adopted budget.

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 Districts 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.

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BASIC FINANCIAL STATEMENTS

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 127,560,750
1120 Current Investments	22,002,581
1220 Property Taxes - Delinquent	2,977,915
1230 Allowance for Uncollectible Taxes	(446,688)
1240 Due from Other Governments	8,666,176
1250 Accrued Interest	35,981
1267 Due from Fiduciary Funds	832
1290 Other Receivables, Net	1,361
1300 Inventories	617,758
Capital Assets:	
1510 Land	7,054,580
1520 Buildings, Net	261,340,400
1530 Furniture and Equipment, Net	9,464,706
1580 Construction in Progress	15,943,596
1000 Total Assets	455,219,948
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	5,410,526
1705 Deferred Outflow Related to TRS Pension	20,415,672
1706 Deferred Outflow Related to TRS OPEB	6,269,543
1700 Total Deferred Outflows of Resources	32,095,741
LIABILITIES	
2110 Accounts Payable	4,754,037
2140 Interest Payable	918,276
2150 Payroll Deductions and Withholdings	1,612,346
2160 Accrued Wages Payable	4,901,762
2180 Due to Other Governments	2,387,355
2300 Unearned Revenue	1,299,562
Noncurrent Liabilities:	
2501 Due Within One Year	8,935,000
2502 Due in More Than One Year	301,211,685
2540 Net Pension Liability (District's Share)	44,794,619
2545 Net OPEB Liability (District's Share)	51,607,187
2000 Total Liabilities	422,421,829
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	9,553,665
2606 Deferred Inflow Related to TRS OPEB	24,784,142
2600 Total Deferred Inflows of Resources	34,337,807
NET POSITION	
3200 Net Investment in Capital Assets	43,618,824
3820 Restricted for Federal and State Programs	2,404,970
3850 Restricted for Debt Service	2,599,311
3890 Restricted for Other Purposes	2,298,457
3900 Unrestricted	(20,365,509)
3000 Total Net Position	\$ 30,556,053

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, 2020

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 103,115,672	\$ 980,233	\$ 10,503,069	\$ (91,632,370)
12 Instructional Resources and Media Services	2,493,331	-	-	(2,493,331)
13 Curriculum and Instructional Staff Development	3,433,388	-	1,545,324	(1,888,064)
21 Instructional Leadership	3,658,190	-	301,146	(3,357,044)
23 School Leadership	9,613,298	-	4,916	(9,608,382)
31 Guidance, Counseling and Evaluation Services	5,229,350	-	383,827	(4,845,523)
32 Social Work Services	3,109,513	-	668,649	(2,440,864)
33 Health Services	2,164,121	-	-	(2,164,121)
34 Student (Pupil) Transportation	6,700,601	-	-	(6,700,601)
35 Food Services	10,192,607	710,341	8,052,320	(1,429,946)
36 Extracurricular Activities	5,303,144	286,762	-	(5,016,382)
41 General Administration	4,941,437	-	-	(4,941,437)
51 Facilities Maintenance and Operations	16,709,596	202,214	363,216	(16,144,166)
52 Security and Monitoring Services	1,780,328	-	73,602	(1,706,726)
53 Data Processing Services	2,224,882	-	-	(2,224,882)
61 Community Services	566,993	2,630	24,236	(540,127)
72 Debt Service - Interest on Long-Term Debt	11,194,857	-	-	(11,194,857)
73 Debt Service - Bond Issuance Cost and Fees	4,288	-	-	(4,288)
81 Capital Outlay	367,250	-	-	(367,250)
93 Payments Related to Shared Services Arrangements	90,640	-	90,640	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	7,743	-	-	(7,743)
99 Other Intergovernmental Charges	371,893	-	-	(371,893)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 193,273,122	\$ 2,182,180	\$ 22,010,945	(169,079,997)

Data Control Codes	General Revenues: Taxes:	
MT	Property Taxes, Levied for General Purposes	39,177,143
DT	Property Taxes, Levied for Debt Service	16,602,261
SF	State Aid - Formula Grants	89,943,884
GC	Grants and Contributions not Restricted	20,201,498
IE	Investment Earnings	1,827,678
MI	Miscellaneous Local and Intermediate Revenue	1,302,806
TR	Total General Revenues	169,055,270
CN	Change in Net Position	(24,727)
NB	Net Position - Beginning	30,580,780
NE	Net Position - Ending	\$ 30,556,053

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 63,292,350	\$ 2,577,796	\$ 62,847,888
1120 Investments - Current	22,002,581	-	-
1220 Property Taxes - Delinquent	2,263,404	714,511	-
1230 Allowance for Uncollectible Taxes	(339,511)	(107,177)	-
1240 Due from Other Governments	3,118,914	-	-
1250 Accrued Interest	35,981	-	-
1260 Due from Other Funds	312,129	33,599	-
1290 Other Receivables	626	3	350
1300 Inventories	389,709	-	-
1000 Total Assets	<u>\$ 91,076,183</u>	<u>\$ 3,218,732</u>	<u>\$ 62,848,238</u>
LIABILITIES			
2110 Accounts Payable	\$ 1,645,632	\$ -	\$ 2,886,011
2150 Payroll Deductions and Withholdings Payable	1,612,346	-	-
2160 Accrued Wages Payable	4,470,721	-	-
2170 Due to Other Funds	331,280	-	-
2180 Due to Other Governments	2,331,375	55,980	-
2300 Unearned Revenue	-	-	-
2000 Total Liabilities	<u>10,391,354</u>	<u>55,980</u>	<u>2,886,011</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	1,780,153	563,441	-
2600 Total Deferred Inflows of Resources	<u>1,780,153</u>	<u>563,441</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	389,709	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	59,962,227
3480 Retirement of Long-Term Debt	-	2,599,311	-
3490 Other Restricted Fund Balance	1,680,699	-	-
Committed Fund Balance:			
3510 Construction	18,309,758	-	-
3545 Other Committed Fund Balance	8,902,272	-	-
3600 Unassigned Fund Balance	49,622,238	-	-
3000 Total Fund Balances	<u>78,904,676</u>	<u>2,599,311</u>	<u>59,962,227</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 91,076,183</u>	<u>\$ 3,218,732</u>	<u>\$ 62,848,238</u>

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

Other Funds	Total Governmental Funds
\$ (1,157,284)	\$ 127,560,750
-	22,002,581
-	2,977,915
-	(446,688)
5,547,262	8,666,176
-	35,981
-	345,728
382	1,361
228,049	617,758
<u>\$ 4,618,409</u>	<u>\$ 161,761,562</u>
\$ 222,394	\$ 4,754,037
-	1,612,346
431,041	4,901,762
13,616	344,896
-	2,387,355
1,299,562	1,299,562
<u>1,966,613</u>	<u>15,299,958</u>
-	2,343,594
-	2,343,594
228,049	617,758
2,404,970	2,404,970
-	59,962,227
-	2,599,311
-	1,680,699
-	18,309,758
18,777	8,921,049
-	49,622,238
<u>2,651,796</u>	<u>144,118,010</u>
<u>\$ 4,618,409</u>	<u>\$ 161,761,562</u>

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SOUTHWEST INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 144,118,010
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 \$463,930,218 and the accumulated depreciation was (\$174,728,789). In addition, long-term liabilities, including bonds payable of (\$286,063,271), 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.	3,138,158
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 2020 capital outlays of \$19,895,236 and debt principal payments of \$8,020,000 is to increase net position.	27,915,236
3 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 (\$44,794,619), a deferred resource inflow related to TRS in the amount of (\$9,553,665), and a deferred resource outflow related to TRS in the amount of \$20,415,672. The net effect of including the GASB 68 recognition is to decrease net position.	(33,932,612)
4 Included in the items related to debt is the recognition of the District's proportionate share of the Other Post Employment Benefits (OPEB) liability required by GASB 75 in the amount of (\$51,607,187), a deferred resource inflow related to OPEB in the amount of (\$24,784,142), and a deferred outflow related to OPEB in the amount of \$6,269,543. The net effect of including the GASB 75 recognition is to decrease net position.	(70,121,786)
5 The 2020 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(15,291,647)
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 \$2,343,594 as revenue, recognizing unamortized losses on bond refundings of \$5,410,526, recognizing unamortized bond premium of (\$24,975,488), recognizing accumulated accretion on capital appreciation bonds of (\$7,127,926), removing the basis of assets disposed of during the year of (\$1,736), and recognizing the liabilities associated with maturing long-term debt and interest of (\$918,276). The net effect of these reclassifications and recognitions is to decrease net position.	(25,269,306)
19 Net Position of Governmental Activities	\$ 30,556,053

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 BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 42,265,630	\$ 16,646,421	\$ 808,502
5800 State Program Revenues	97,100,090	3,187,762	-
5900 Federal Program Revenues	4,346,707	-	-
5020 Total Revenues	143,712,427	19,834,183	808,502
EXPENDITURES:			
Current:			
0011 Instruction	75,655,272	-	76,447
0012 Instructional Resources and Media Services	2,213,986	-	-
0013 Curriculum and Instructional Staff Development	1,538,381	-	-
0021 Instructional Leadership	3,001,456	-	-
0023 School Leadership	8,170,322	-	-
0031 Guidance, Counseling, and Evaluation Services	4,099,199	-	-
0032 Social Work Services	2,151,342	-	-
0033 Health Services	1,918,708	-	-
0034 Student (Pupil) Transportation	6,724,399	-	820,734
0035 Food Services	491,418	-	-
0036 Extracurricular Activities	4,824,472	-	-
0041 General Administration	4,590,664	-	-
0051 Facilities Maintenance and Operations	14,401,560	-	-
0052 Security and Monitoring Services	1,675,966	-	-
0053 Data Processing Services	1,939,079	-	-
0061 Community Services	416,236	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	8,020,000	-
0072 Interest on Long-Term Debt	-	11,008,694	-
0073 Bond Issuance Cost and Fees	800	3,488	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	1,469,878	-	15,503,182
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	7,743	-	-
0099 Other Intergovernmental Charges	371,893	-	-
6030 Total Expenditures	135,662,774	19,032,182	16,400,363
1200 Net Change in Fund Balances	8,049,653	802,001	(15,591,861)
0100 Fund Balance - September 1 (Beginning)	70,855,023	1,797,310	75,554,088
3000 Fund Balance - August 31 (Ending)	\$ 78,904,676	\$ 2,599,311	\$ 59,962,227

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

Other Funds		Total Governmental Funds	
\$	1,208,572	\$	60,929,125
	1,821,472		102,109,324
	20,189,473		24,536,180
	23,219,517		187,574,629
	10,889,565		86,621,284
	-		2,213,986
	1,549,353		3,087,734
	301,356		3,302,812
	105,730		8,276,052
	459,372		4,558,571
	668,649		2,819,991
	-		1,918,708
	-		7,545,133
	8,715,563		9,206,981
	69,193		4,893,665
	-		4,590,664
	358,209		14,759,769
	73,602		1,749,568
	-		1,939,079
	108,098		524,334
	-		8,020,000
	-		11,008,694
	-		4,288
	-		16,973,060
	90,640		90,640
	-		7,743
	-		371,893
	23,389,330		194,484,649
	(169,813)		(6,910,020)
	2,821,609		151,028,030
\$	2,651,796	\$	144,118,010

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (6,910,020)
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 2020 capital outlays of \$19,895,236 and debt principal payments of \$8,020,000 is to increase net position.	27,915,236
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.	(15,291,647)
Current year changes due to GASB 68 increased revenues in the amount of \$5,323,456 and also increased expenditures in the amount of (\$10,807,022). The impact of these items is to decrease net position.	(5,483,566)
Current year changes due to GASB 75 increased revenues in the amount of \$187,367, but also increased expenditures in the amount of (\$418,877). The net effect was a decrease in the change in net position.	(231,510)
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 \$164,679, recognizing current year amortization of accounting losses of (\$504,416), recognizing amortization of bond premium of \$1,430,846, recognizing current year accretion on capital appreciation bonds of (\$1,129,304), recognizing the change in liabilities associated with maturing long-term debt and interest of \$16,711, and removing the book value of assets disposed of (\$1,736). The net effect of these reclassifications and recognitions is to decrease net position.	(23,220)
Change in Net Position of Governmental Activities	\$ (24,727)

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, 2020

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 518,856
Other Receivables	422
Total Assets	<u>\$ 519,278</u>
LIABILITIES	
Due to Other Funds	\$ 832
Due to Student Groups	518,446
Total Liabilities	<u>\$ 519,278</u>

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

SOUTHWEST INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2020

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. **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.
3. **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.

Fiduciary Funds:

2. **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	\$ 389,709
Inventories in the food service fund	228,049
Total nonspendable	<u>617,758</u>
Restricted	
Debt Service	2,599,311
Capital acquisition	59,962,227
Federal or State fund grant restrictions	2,404,970
Scholarship fund	1,680,699
Total restricted	<u>66,647,207</u>
Committed	
Future construction needs	18,309,758
Infrastructure needs	8,902,272
Campus Activity Funds	18,777
Total committed	<u>27,230,807</u>
Unassigned	<u>49,622,238</u>
Total Fund Balances	<u>\$ 144,118,010</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 and other funding sources 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 (pension & 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), 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:

<u>Assets</u>	<u>Years</u>
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, 2020	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 2,633,019
Nonappropriated Budget Funds	<u>18,777</u>
All Special Revenue Funds	<u>\$ 2,651,796</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 fiscal year-end, the District had funds on deposit of \$12,370,151 in excess of FDIC coverage, fully secured by a letter of credit from the Federal Home Loan Bank.

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 compliance with the requirements of the Act and with local policies.

As of August 31, 2020, Southwest Independent School District's cash equivalents and investments consisted of external investment pools and U.S. agency securities, as follows:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Amount</u>	<u>Maturity</u>		
			<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>10+ Years</u>
External Investment Pools	AAAm	\$ 116,362,396	\$ N/A	\$ -	\$ -
U.S. Agency Securities	AA+	22,002,581	2,001,393	20,001,188	-
Total		<u>\$ 138,364,977</u>	<u>\$ 2,001,393</u>	<u>\$ 20,001,188</u>	<u>\$ -</u>

Additional policies 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.

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 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.

As of August 31, 2020:

- U.S. Agency securities from three agencies represented 14.57% of the total portfolio,
- funds invested in local government investment pools represented 77.07% of the total portfolio, and
- FDIC insured and collateralized demand deposit accounts represented 8.36% 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, 2020, the portfolio contained:

- four U.S. Agency quarterly callable securities with a fair market value of \$22,022,581, and
- the dollar weighted average maturity of the total portfolio was 142 days.

As of August 31, 2020, the portfolio contained four 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
<u>Quarterly Callable Securities:</u>								Callable anytime with 5 business days notice		
10392	3133ELUX0	FFCB	1.000%	\$2,000,000	03/30/20	03/30/22	03/30/21		\$2,000,000	\$2,001,393
								Callable anytime with 5 business days notice		
10396	3134GVQJ0	FHLMC	0.510%	\$5,000,000	05/06/20	04/28/23	10/28/20		\$4,999,669	\$5,000,806
								Callable anytime with 5 business days notice		
10397	3135G04R1	FNMA	0.500%	\$7,500,000	06/25/20	05/25/23	10/13/20		\$7,499,580	\$7,500,838
								Callable anytime with 10 business days notice		
10398	3134GV5N4	FHLMC	0.500%	\$7,500,000	07/13/23	07/13/23	11/25/20		<u>\$7,500,000</u>	<u>\$7,499,544</u>
									<u>\$21,999,249</u>	<u>\$22,002,581</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, 2020,

- all bank demand deposits were fully insured and collateralized, in accordance with policy,
- collateral was equal in market value to 110% of the deposits, and
- all pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Fair Value Measurement

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 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, 2020:

Investments	Amount	Fair Value Measurement Using Input:		
		Level 1	Level 2	Level 3
External Investment Pools	\$ 116,362,396	\$ -	\$ 116,362,396	\$ -
U.S. Agency Securities	22,002,581	22,002,581	-	-
Total	\$ 138,364,977	\$ 22,002,581	\$ 116,362,396	\$ -

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>).

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, 2020 consisted of the following amounts:

Due to General Fund From:

Intrafund	\$ 297,682
Non-major Funds	13,615
Fiduciary Funds	<u>832</u>
Total Due to General Fund From Other Funds	<u>\$ 312,129</u>

Due to Debt Service Fund From:

General Fund	<u>\$ 33,599</u>
Total Due to Debt Service Fund	<u>\$ 33,599</u>
Total	<u>\$ 345,728</u>

There were no interfund transfers during the year.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2020, were as follows:

	Property Taxes	Other Governments	Accrued Interest	Due From Other Funds	Other	Total Receivables
Governmental Activities:						
General Fund	\$ 2,263,404	\$ 3,118,914	\$ 35,981	\$ 312,129	\$ 626	\$ 5,731,054
Debt Service Fund	714,511	-	-	33,599	3	748,113
Capital Projects Fund	-	-	-	-	350	350
Nonmajor Governmental Funds	-	5,547,262	-	-	382	5,547,644
Total Governmental Activities	<u>\$ 2,977,915</u>	<u>\$ 8,666,176</u>	<u>\$ 35,981</u>	<u>\$ 345,728</u>	<u>\$ 1,361</u>	<u>\$ 12,027,161</u>
Amount not scheduled for collection during subsequent year	<u>\$ 446,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 446,688</u>

Payables at August 31, 2020, were as follows:

	Accounts Payables	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
General Fund	\$ 1,645,632	\$ 6,083,067	\$ 331,280	\$ 2,331,375	\$ 10,391,354
Debt Service Fund	-	-	-	55,980	55,980
Capital Projects Funds	2,886,011	-	-	-	2,886,011
Nonmajor Governmental Funds	222,394	431,041	13,616	-	667,051
Total Governmental Activities	<u>\$ 4,754,037</u>	<u>\$ 6,514,108</u>	<u>\$ 344,896</u>	<u>\$ 2,387,355</u>	<u>\$ 14,000,396</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, 2020 was as follows:

	Primary Government			
	Beginning Balance	Additions	Adjustments Retirements	Ending Balance
Governmental Activities:				
Land	\$ 7,054,580	\$ -	\$ -	\$ 7,054,580
Buildings and improvements	413,480,679	94,623	12,485,764	426,061,066
Equipment	30,368,077	3,733,028	367,183	34,468,288
Construction in progress	13,026,882	16,067,585	(13,150,871)	15,943,596
Total at historical cost	<u>463,930,218</u>	<u>19,895,236</u>	<u>(297,924)</u>	<u>483,527,530</u>
Less accumulated depreciation				
Buildings and improvements	(151,455,767)	(13,279,356)	14,457	(164,720,666)
Equipment	<u>(23,273,022)</u>	<u>(2,012,291)</u>	<u>281,731</u>	<u>(25,003,582)</u>
Total accumulated depreciation	<u>(174,728,789)</u>	<u>(15,291,647)</u>	<u>296,188</u>	<u>(189,724,248)</u>
Governmental activities capital assets, net	<u>\$ 289,201,429</u>	<u>\$ 4,603,589</u>	<u>\$ (1,736)</u>	<u>\$ 293,803,282</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 9,765,278
Instructional resources and media services	152,229
Curriculum and instructional staff development	110,449
Instructional leadership	94,043
School leadership	647,467
Guidance, counseling and evaluation services	293,135
Social work services	27,885
Health services	118,728
Student transportation	823,484
Food services	858,915
Extracurricular activities	462,346
General administration	61,664
Plant maintenance and operations	1,608,160
Security services	47,425
Data processing services	190,080
Community services	<u>30,359</u>
Total Depreciation Expense	<u>\$ 15,291,647</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, 2020 is as follows:

Description	Final Maturity	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/2019	Issued	Retired/ Refunded	Amounts Outstanding 8/31/2020	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									
Refunding Bonds									
Series 2010	2020	3.00%	\$ 6,830,000	\$ 18,375	\$ 1,225,000	\$ -	\$ 1,225,000	\$ -	\$ -
Unlimited Tax									
School Building Bonds									
Series 2013	2043	5.00%	\$ 81,828,289	\$ 2,554,950	\$ 70,208,290	\$ -	\$ -	\$ 70,208,290	\$ -
Unlimited Tax									
School Building and									
Refunding Bonds									
Series 2014	2043	5.00%	\$ 91,695,000	\$ 4,018,050	\$ 83,205,000	\$ -	\$ 2,940,000	\$ 80,265,000	\$ 3,080,000
Unlimited Tax									
Refunding Bonds									
Series 2016	2027	5.00%	\$ 22,995,000	\$ 617,913	\$ 14,140,000	\$ -	\$ 1,435,000	\$ 12,705,000	\$ 2,840,000
Unlimited Tax									
School Building and									
Refunding Bonds									
Series 2016	2038	5.00%	\$ 35,070,000	\$ 1,159,988	\$ 30,310,000	\$ -	\$ 2,175,000	\$ 28,135,000	\$ 2,280,000
Unlimited Tax									
Refunding Bonds									
Series 2017	2033	4.00%	\$ 8,204,982	\$ 202,025	\$ 8,074,982	\$ -	\$ 130,000	\$ 7,944,982	\$ 135,000
Unlimited Tax									
School Building Bonds									
Series 2019	2049	5.00%	\$ 72,790,000	\$ 2,116,618	\$ 72,790,000	\$ -	\$ 115,000	\$ 72,675,000	\$ 600,000
Totals				11,008,694	286,063,272	-	8,020,000	278,043,272	8,935,000
Capital Appreciation Bonds									
C.A.B. Accreted									
Interest, Series 2013				-	5,998,623	1,129,304	-	7,127,927	-
Total All Bonds				11,008,694	292,061,895	1,129,304	8,020,000	285,171,199	8,935,000

On December 6, 2017, the District issued \$16,940,000 (refunding portion) of Unlimited Tax 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

On June 3, 2019, the District deposited \$1,383,791 of its existing resources with an escrow agent in trust for the defeasance of \$1,265,000 of bonds from its Unlimited Tax School Building Bonds, Series 2013 that mature on February 1, 2038. By placing the funds in trust with the escrow agent the District looks to exercise the call date of February 1, 2022. Total debt service to maturity of the bonds amounts to \$2,466,750 and total debt service to the call date amounts to \$1,454,750 for a total cash flow savings to the District of \$1,012,000. 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.

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		Total Requirements
	Principal	Interest	
2021	\$ 8,935,000	\$ 10,811,963	\$ 19,746,963
2022	9,290,000	10,400,706	19,690,706
2023	9,720,000	9,979,150	19,699,150
2024	9,680,000	9,524,013	19,204,013
2025	10,525,000	9,045,788	19,570,788
2026-2030	57,970,000	37,606,225	95,576,225
2021-2035	70,329,983	26,022,518	96,352,501
2036-2040	59,759,959	24,702,041	84,462,000
2041-2045	27,373,330	28,791,170	56,164,500
2046-2049	14,460,000	883,800	15,343,800
Total	\$ 278,043,272	\$ 167,767,374	\$ 445,810,646

H. CHANGES IN LONG-TERM LIABILITIES

Following is a summary of changes in long-term liabilities for the year ended August 31, 2020:

	Amount Outstanding 9/1/2019	Additions	Retired/ Refunded	Amounts Outstanding 8/31/2020	Due Within One Year
Bonds Payable	\$ 292,061,895	\$ 1,129,304	\$ 8,020,000	\$ 285,171,199	\$ 8,935,000
Add/(Less) Deferred Amounts:	-	-	-	-	-
Net Issuance Premiums/ Discounts	26,406,334	-	1,430,848	24,975,486	-
Total Bonds Payable	<u>\$ 318,468,229</u>	<u>\$ 1,129,304</u>	<u>\$ 9,450,848</u>	<u>\$ 310,146,685</u>	<u>\$ 8,935,000</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, 2020.

I. COMMITMENTS UNDER LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of August 31, 2020, as follows:

2021	\$ 350,790
2022	348,590
2023	44,200
2024	18,417
2025	-
Thereafter	-
Total Minimum Rentals	<u>\$ 761,997</u>
Rental Expenditures for Fiscal Year 2020	<u>\$ 943,394</u>

J. 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.

K. 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. Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [https://trs.texas.gov/TRS%20 Documents/cafr2019.pdf](https://trs.texas.gov/TRS%20Documents/cafr2019.pdf), selecting *About TRS* then *Publications* then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

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

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

In May, 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

Contributions Rates		
	2019	2020
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	7.5%
Employers	6.8%	7.7%
District's 2020 FY Employer Contributions		\$ 3,379,773
District's 2020 FY Member Contributions		\$ 7,849,683
Measurement Year NECE On-Behalf Contributions		\$ 4,345,245

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

As the non-employer contributing entity for public education, 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, from non-educational and general, or local funds.
- * When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate, called the Public Education Employer Contribution, will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there is an additional surcharge 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 or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

Actuarial Assumptions.

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

Valuation Date	August 31, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
	2.63%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Municipal Bond Rate as of August 2019	
Last year ending August 31 in Projection	
Period (100 years)	2116
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions used in the determination of the total pension liability assumptions are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Discount Rate. A single discount rate of 7.25% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25%. The projection of cash flows used to determine the single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

Asset Class	FY 2019 Target Allocation* %	New Target Allocation** %	Long-Term Expected Geometric Real Rate of Return***
Global Equity			
USA	18.00%	18.00%	6.40%
Non-U.S. Developed	13.00%	13.00%	6.30%
Emerging Markets	9.00%	9.00%	7.30%
Directional Hedge Funds	4.00%	0.00%	0.00%
Private Equity	13.00%	14.00%	8.40%
Stable Value			
U.S. Treasuries****	11.00%	16.00%	3.10%
Stable Value Hedge Funds	4.00%	5.00%	4.50%
Absolute Return (Including Credit	0.00%	0.00%	0.00%
Real Return			
Global Inflation Linked Bonds****	3.00%	0.00%	0.00%
Real Estate	14.00%	15.00%	8.50%
Energy, Natural Resources and	5.00%	6.00%	7.30%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	8.00%	5.8%-6.5%*****
Asset Allocation Leverage			
Cash	1.00%	2.00%	2.50%
Asset Allocation Leverage	0.00%	-6.00%	2.70%
Total	100%	100%	7.23%

* FY 2019 Target Allocation based on the Strategic Asset Allocations dated 10/1/2018

** New target allocation based on the Strategic Asset Allocation dated 10/1/2019

*** 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%

**** New Target Allocation groups Government Bonds within the stable value allocation. This includes global sovereign nominal and inflation-linked bonds.

***** 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) target volatility.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the net pension liability:	\$68,855,837	\$44,794,619	\$25,300,389

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2020, Southwest Independent School District reported a liability of \$44,794,619 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	\$ 44,794,619
State's proportionate share that is associated with the District	<u>64,537,479</u>
Total	<u>\$ 109,332,098</u>

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net pension liability was 0.0861714612% which was an decrease of 0.0014520971% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

- The total pension liability as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year for 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

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

For the year ended August 31, 2020, Southwest Independent School District recognized pension expense of \$10,137,929 and revenue of \$10,137,929 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2020, 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	\$ 188,177	\$ 1,555,340
Changes in actuarial assumptions	13,897,491	5,743,101
Net difference between projected and actual investment earnings	449,789	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	2,500,442	2,255,224
Contributions paid to TRS subsequent to the measurement date	3,379,773	-
Total	\$ 20,415,672	\$ 9,553,665

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
2021	\$ 2,078,141
2022	1,557,309
2023	2,033,697
2024	1,858,356
2025	398,602
Thereafter	(443,871)

L. 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, 2019 are as follows:

Net OPEB Liability	Total
Total OPEB Liability	\$ 48,583,247,239
Less: Plan fiduciary net position	1,292,022,349
Net OPEB liability	\$ 47,291,224,890
Net position as a percentage of total OPEB liability	2.66%

Benefits Provided. TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for retirees are reflected in the following table.

TRS-Care Monthly Premium Rates

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

* or surviving spouse

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25 percent of the employee's salary. Section 1575.203 establishes the active employee's rate which is .75 percent of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contributions Rates

	2019	2020
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%
District's 2020 FY Employer Contributions		\$ 865,662
District's 2020 FY Member Contributions		\$ 662,654
Measurement Year NECE On-Behalf Contributions		\$ 1,029,069

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 \$73.6 million in fiscal year 2019.

Actuarial Assumptions.

The total OPEB liability in the August 31, 2018 actuarial valuation was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 TRS pension actuarial valuation that was rolled forward to August 31, 2019:

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, 2018 rolled forward to August 31, 2019
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	2.63% as of August 31, 2019
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	3.05% to 9.05% including inflation
Ad Hoc Post-Employment Benefit Changes	None

Other Information: The impact of the Cadillac Tax that is returning in fiscal year 2023, has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.30%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Discount Rate. A single discount rate of 2.63% was used to measure the total OPEB liability. There was a decrease of 1.06% 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.

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 (2.63%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (1.63%)	Discount Rate (2.63%)	1% Increase in Discount Rate (3.63%)
District's proportionate share of the Net OPEB Liability:	\$62,306,434	\$51,607,187	\$43,237,156

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:	\$42,099,333	\$51,607,187	\$64,343,345

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2020, Southwest Independent School District reported a liability of \$51,607,187 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	\$ 51,607,187
State's proportionate share that is associated with the District	68,574,408
Total	<u>\$ 120,181,595</u>

The Net OPEB Liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the employer's proportion of the collective Net OPEB Liability was 0.1091263481% compared to 0.1108799251% as of August 31, 2018.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability (TOL) since the prior measurement period:

1. The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the TOL.
2. The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
3. The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
4. The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the TOL.
5. Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, Southwest Independent School District recognized OPEB expense of \$1,807,340 and revenue of \$1,807,340 for support provided by the State.

At August 31, 2020, 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	\$ 2,531,771	\$ 8,444,969
Changes in actuarial assumptions	2,866,377	13,881,067
Net difference between projected and actual investment earnings	5,567	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	166	2,458,106
Contributions paid to TRS subsequent to the measurement date (To be calculated by employer)	865,662	-
Total	\$ 6,269,543	\$ 24,784,142

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	\$ (3,179,573)
2020	(3,179,573)
2021	(3,181,376)
2022	(3,182,406)
2023	(3,182,124)
Thereafter	(3,475,209)

M. 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 2018, 2019, and 2020 were \$366,698, \$357,001 and \$434,576.

N. 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.

O. HEALTH CARE COVERAGE

During the year ended August 31, 2020, 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 \$375 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.

P. 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, 2020 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 \$16,367,086.

Q. UNAVAILABLE/UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Capital Project Funds	Other Funds	Total
Local Revenue	\$ -	\$ -	\$ 834,914	\$ 834,914
State Revenue	-	-	464,648	464,648
Federal Revenue	-	-	-	-
Total Deferred Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,299,562</u>	<u>\$ 1,299,562</u>

R. 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, 2020, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Fund	State Entitlements	Federal Grants	Other	Total
General Fund	\$ 3,108,782	\$ 151	\$ 9,981	\$ 3,118,914
Other Funds	524,011	5,023,251	-	5,547,262
Total	<u>\$ 3,632,793</u>	<u>\$ 5,023,402</u>	<u>\$ 9,981</u>	<u>\$ 8,666,176</u>

S. 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	\$ 39,098,451	\$ -	\$ -	\$ 16,488,647	\$ 55,587,098
Penalties, Interest and Other					
Tax-related Income	342,572	-	-	113,444	456,016
Tuition and Fees	2,090	-	-	-	2,090
Investment Income	945,216	808,502	29,630	44,330	1,827,678
Rent	29,232	-	-	-	29,232
Gifts and Bequests	155,703	-	706,072	-	861,775
Food Sales		-	436,452	-	436,452
Insurance Recovery	14,379	-	-	-	14,379
Extracurricular Student Activities	183,683	-	-	-	183,683
Enterprising Activities	88,664	-	-	-	88,664
Other	1,405,640	-	36,418	-	1,442,058
Total	<u>\$ 42,265,630</u>	<u>\$ 808,502</u>	<u>\$ 1,208,572</u>	<u>\$ 16,646,421</u>	<u>\$ 60,929,125</u>

T. GENERAL FUND FEDERAL SOURCES REVENUE

Program or Source	Amount
School Health and Related Services (SHARS) Program	\$ 3,805,928
Star Base Kelly	136,647
ROTC	107,243
Indirect Cost	<u>296,889</u>
	<u>\$ 4,346,707</u>

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

U. WORKERS' COMPENSATION AGGREGATE DEDUCTIBLE

During the year ended August 31, 2020, 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, 2019, the Fund carries a discounted reserve of \$45,439,534 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2020, 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, 2019, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

V. UNEMPLOYMENT COMPENSATION POOL

During the year ended August 31, 2020, 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, 2020, 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, 2019, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2020

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 41,948,783	\$ 42,109,905	\$ 42,265,630	\$ 155,725
5800 State Program Revenues	97,020,555	97,982,094	97,100,090	(882,004)
5900 Federal Program Revenues	3,630,000	3,642,147	4,346,707	704,560
5020 Total Revenues	142,599,338	143,734,146	143,712,427	(21,719)
EXPENDITURES:				
Current:				
0011 Instruction	82,908,961	83,217,260	75,655,272	7,561,988
0012 Instructional Resources and Media Services	2,299,229	2,407,224	2,213,986	193,238
0013 Curriculum and Instructional Staff Development	1,857,841	1,951,876	1,538,381	413,495
0021 Instructional Leadership	3,087,054	3,191,910	3,001,456	190,454
0023 School Leadership	8,123,986	8,316,737	8,170,322	146,415
0031 Guidance, Counseling, and Evaluation Services	3,971,336	4,127,401	4,099,199	28,202
0032 Social Work Services	1,761,838	2,309,522	2,151,342	158,180
0033 Health Services	1,699,733	2,099,266	1,918,708	180,558
0034 Student (Pupil) Transportation	6,112,006	7,109,272	6,724,399	384,873
0035 Food Services	249,275	508,929	491,418	17,511
0036 Extracurricular Activities	4,384,231	9,373,626	4,824,472	4,549,154
0041 General Administration	4,888,573	4,893,705	4,590,664	303,041
0051 Facilities Maintenance and Operations	16,058,660	16,039,972	14,401,560	1,638,412
0052 Security and Monitoring Services	1,958,470	1,996,386	1,675,966	320,420
0053 Data Processing Services	1,986,940	2,033,145	1,939,079	94,066
0061 Community Services	220,442	494,063	416,236	77,827
Debt Service:				
0073 Bond Issuance Cost and Fees	-	800	800	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	2,588,797	2,163,797	1,469,878	693,919
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	150,000	150,000	-	150,000
0095 Payments to Juvenile Justice Alternative Ed. Prg.	200,000	200,000	7,743	192,257
0099 Other Intergovernmental Charges	325,000	372,000	371,893	107
6030 Total Expenditures	144,832,372	152,956,891	135,662,774	17,294,117
1200 Net Change in Fund Balances	(2,233,034)	(9,222,745)	8,049,653	17,272,398
0100 Fund Balance - September 1 (Beginning)	70,855,023	70,855,023	70,855,023	-
3000 Fund Balance - August 31 (Ending)	\$ 68,621,989	\$ 61,632,278	\$ 78,904,676	\$ 17,272,398

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Pension Liability (Asset)	0.086171461%	0.087623558%	0.094907378%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 44,794,619	\$ 48,230,133	\$ 30,346,267
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	64,537,479	70,398,720	40,770,717
Total	<u>\$ 109,332,098</u>	<u>\$ 118,628,853</u>	<u>\$ 71,116,984</u>
District's Covered Payroll	\$ 94,175,043	\$ 92,212,026	\$ 91,488,775
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	47.57%	52.30%	33.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.24%	73.74%	82.17%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

FY 2017 Plan Year 2016			FY 2016 Plan Year 2015			FY 2015 Plan Year 2014		
0.093613%			0.095544%			0.0680379%		
\$	35,374,865		\$	33,773,532		\$	18,173,864	
48,951,292			45,555,738			38,596,846		
\$	84,326,157		\$	79,329,270		\$	56,770,710	
\$	88,185,474		\$	82,986,596		\$	78,516,816	
40.11%			40.70%			23.15%		
78.00%			78.43%			83.25%		

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 3,379,773	\$ 3,197,659	\$ 3,094,205
Contribution in Relation to the Contractually Required Contribution	3,379,773	3,197,659	3,094,205
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 101,936,487	\$ 94,175,043	\$ 92,212,026
Contributions as a Percentage of Covered Payroll	3.32%	3.40%	3.36%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

2017		2016		2015	
\$	3,118,799	\$	2,969,092	\$	2,829,098
	3,118,799		2,969,092		2,829,098
\$	-	\$	-	\$	-
\$	91,488,755	\$	88,185,474	\$	82,986,596
	3.41%		3.37%		3.41%

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

	FY 2020 Plan Year 2019	FY 2019 Plan Year 2018	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.109126348%	0.110879925%	0.113973212%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 51,607,187	\$ 55,363,362	\$ 49,562,674
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	68,574,408	78,708,486	69,228,725
Total	<u>\$ 120,181,595</u>	<u>\$ 134,071,848</u>	<u>\$ 118,791,399</u>
District's Covered Payroll	\$ 94,175,043	\$ 92,212,026	\$ 91,488,775
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	54.80%	60.04%	54.17%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	2.66%	1.57%	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2020 are for the measurement date of August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2020

	2020	2019	2018
Contractually Required Contribution	\$ 865,662	\$ 807,025	\$ 793,027
Contribution in Relation to the Contractually Required Contribution	865,662	807,025	793,027
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 101,936,487	\$ 94,175,043	\$ 92,212,026
Contributions as a Percentage of Covered Payroll	0.85%	0.86%	0.86%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

SOUTHWEST INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2020

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms.

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

Changes of Assumptions.

There were no changes in the actuarial assumptions used in the determination of the Total Pension Liability during the measurement period.

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefit.

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

Changes in Assumptions.

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

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.

Financial Advisory Services
Provided By:

