

REMARKETING MEMORANDUM
July 25, 2018

REMARKETING – NOT A NEW ISSUE
BOOK-ENTRY-ONLY

Ratings: S&P: Unenhanced: "A+"; PSF: "AAA"
Fitch: Unenhanced: "AA"; PSF: "AAA"
(See "RATINGS" and "THE PERMANENT SCHOOL
FUND GUARANTEE PROGRAM" herein.)

In the Original Opinion (hereinafter defined), Bond Counsel (identified below), rendered an opinion that, assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) would be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) would not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. Bond Counsel will, in accordance with the Order, render an opinion to the Paying Agent/Registrar (defined below) that the remarketing that is the subject of this Remarketing Memorandum will not adversely affect the excludability of interest on the Bonds for federal income tax purposes. The Remarketing Agents (defined below) will be allowed to rely on this opinion. See "TAX MATTERS" herein.

\$59,775,000
HARLANDALE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015

Dated Date: July 1, 2015
Interest accrues from August 15, 2018

Maturity Date: August 15, as shown on page ii
Term Rate Bonds' Mandatory Tender Date: August 15, 2021

The Harlandale Independent School District (the "District") initially issued its Variable Rate Unlimited Tax School Building Bonds, Series 2015 (the "Bonds") as variable rate obligations pursuant to the Constitution and general laws of the State of Texas, including (particularly) Chapter 45, as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code, an election held in the District on May 9, 2015, and an order adopted on July 28, 2015 (the "Order") by the Board of Trustees of the District (the "Board"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. Additionally, payment of principal of and interest on the Bonds, when due, is guaranteed by the Texas Permanent School Fund; provided, however, that the Texas Permanent School Fund guarantee is not effective with respect to the payment of the hereinafter-defined Purchase Price of tendered Bonds. (See "THE BONDS – Security" and "Permanent School Fund Guarantee"; see also "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). Capitalized terms used in this Remarketing Memorandum that are not otherwise defined shall have the meaning assigned to such terms in the Order and in the Remarketing Order (hereinafter defined). See "THE BONDS – Authorization" and "Remarketing and Conversion of Bonds from Initial Rate Period; Remarketing Order." The definitive Bonds have been registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof while bearing interest at a Term Rate or at Fixed Rates. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (identified below) to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see "THE BONDS – General Description - Book-Entry System of Registration and Payment" herein). The Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS – General Description - Paying Agent/Registrar").

The Bonds are currently outstanding in the aggregate principal amount of \$60,820,000, bearing interest at the Initial Rate through the August 14, 2018 conclusion of the Initial Rate Period. On August 15, 2018, \$60,820,000 in principal amount of Bonds will be mandatorily tendered for purchase; on such date, pursuant to the Order and an order of the Board adopted on April 16, 2018 (the "Remarketing Order"), \$7,625,000 in tendered Bonds will be converted and remarketed into a Fixed Rate Period, commencing on August 15, 2018, during which such Bonds (the "Fixed Rate Bonds") will bear interest at Fixed Rates to stated maturity, \$52,150,000 in tendered Bonds will be converted and remarketed into a new Term Rate Period (the "New Term Rate Period"), commencing on August 15, 2018 and concluding on August 14, 2021, during which such Bonds (the "Term Rate Bonds") bear interest at a Term Rate of 3.00%, and the remainder \$1,045,000 of tendered Bonds will be redeemed pursuant to the optional redemption provisions applicable thereto. The remarketing of the Bonds as heretofore described will provide proceeds to pay the Purchase Price of the Bonds at their August 15, 2018 mandatory tender. The principal amounts, maturity dates, interest rates, initial yields, tender date (with respect to the Term Rate Bonds), and redemption provisions applicable to the Fixed Rate Bonds in their Fixed Rate Period and the Term Rate Bonds in the New Term Rate Period are provided in the tables appearing on page ii hereof. The Fixed Rate Bonds are not subject to tender or redemption prior to their stated maturity.

The Term Rate Bonds are subject to mandatory tender, without right of retention, on August 15, 2021 (the "Conversion Date"), being the day immediately succeeding conclusion of the New Term Rate Period (but such mandatory tender for purchase shall actually occur on August 16, 2021, which is the first business day to occur after August 15, 2021; this shall not, however, result in an accrual of interest beyond the stated expiration date of the New Term Rate Period). On the Conversion Date, the Order requires that the Term Rate Bonds again be converted and remarketed, in whole or in part, to (a) one or more Term Rate Periods during which such converted and remarketed Term Rate Bonds bear interest at a new Term Rate (determined in accordance with the provisions of the Order), or (b) a Fixed Rate Period during which such converted and remarketed Term Rate Bonds bear interest at Fixed Rates (determined in accordance with the provisions of the Order) until stated maturity or (as applicable) prior redemption. During the New Term Rate Period, the Term Rate Bonds are not subject to the benefit of a liquidity facility provided by a third party. Accordingly, a failure by the applicable Remarketing Agent (defined herein) to remarket Term Rate Bonds subject to mandatory tender on the Conversion Date will result in the rescission of the notice of mandatory tender with respect thereto and the District not having any obligation to purchase such Term Rate Bonds at that time. The occurrence of the foregoing will not result in an event of default under the Order or the Bonds. Until such time as the District redeems or remarkets Term Rate Bonds that have been unsuccessfully remarketed as described above, such Term Rate Bonds shall bear interest at the "Stepped Rate", which is defined herein to mean 8.00% per annum, calculated on the basis of twelve 30-day months and the number of days actually elapsed (see "THE BONDS – Provisions Applicable to Term Rate Bonds - Tender Provisions" herein).

This Remarketing Memorandum describes the Fixed Rate Bonds in their Fixed Rate Period and the Term Rate Bonds only in the New Term Rate Period (and, after conclusion of such New Term Rate Period and if at all, the period during which the Term Rate Bonds bear interest at the Stepped Rate) and not the Term Rate Bonds remarketed and sold into another interest rate period during which the Term Rate Bonds bear interest in another interest rate mode.

The Bonds were originally delivered to the initial purchasers, together with the approving opinion of the Attorney General of the State of Texas and the original opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see "APPENDIX D – BOND COUNSEL'S ORIGINAL OPINION"), through the services of DTC. The remarketing of the Bonds, as described herein, will be undertaken by the syndicate of banks identified below serving as Remarketing Agent for the Bonds (such syndicate of banks, the "Remarketing Agents"). Settlement of the remarketed Bonds will occur through the services of DTC on August 15, 2018. In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agents by their counsel, Kassahn & Ortiz, P.C., San Antonio, Texas.

HILLTOPSECURITIES

SIEBERT CISNEROS SHANK & CO., LLC

UBS FINANCIAL SERVICES INC.

Maturity Schedule

\$59,775,000

HARLANDALE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)

\$7,625,000 Fixed Rate Bonds

(Serial Bonds: Interest Rates Fixed to Stated Maturity)

<u>Maturity Date (8/15)⁽²⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix No. ⁽¹⁾</u>
2019	\$2,850,000	5.00%	1.52%	HS3
2020	2,375,000	5.00	1.68	HT1
2021	1,000,000	5.00	1.81	HU8
2022	1,400,000	5.00	1.96	HV6

(Interest to accrue from the Delivery Date)

\$52,150,000 Term Rate Bonds

(Term Bond: Term Interest Rate Applicable Through Conclusion of New Term Rate Period)

<u>Stated Maturity (8/15)</u>	<u>Expiration of New Term Rate Period</u>	<u>Mandatory Tender Date⁽³⁾</u>	<u>New Term Rate Period Interest Rate⁽⁴⁾</u>	<u>New Term Rate Period Yield⁽⁵⁾</u>	<u>Stepped Rate</u>	<u>CUSIP Suffix No. ⁽¹⁾</u>
2045	August 14, 2021	August 15, 2021	3.00%	1.98%	8.00%	HW4

(Interest to accrue from the Delivery Date)

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Remarketing Agents shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

⁽²⁾ The Fixed Rate Bonds are not subject to redemption prior to stated maturity.

⁽³⁾ During the New Term Rate Period, the Term Rate Bonds are subject to redemption at the option of the District, at the price of par plus accrued interest, on August 15, 2020 or any date thereafter. After conclusion of the New Term Rate Period, the Term Rate Bonds are additionally subject to redemption as described herein. The Term Rate Bonds are not subject to optional tender. On the Mandatory Tender Date, the Term Rate Bonds are subject to mandatory tender without right of retention (but such mandatory tender for purchase shall actually occur on August 16, 2021, which is the first business day to occur after August 15, 2021; this shall not, however, result in an accrual of interest beyond the stated expiration date of the New Term Rate Period).. (See "THE BONDS – Redemption" and "THE BONDS – General Description - Tender Provisions" herein.)

⁽⁴⁾ Represents New Term Period Interest Rate applicable to the Term Rate Bonds during the New Term Rate Period.

⁽⁵⁾ New Term Period Yield is the yield on the Term Rate Bonds during the New Term Rate Period calculated to the first optional redemption date of August 15, 2020.

USE OF INFORMATION IN REMARKETING MEMORANDUM

This Remarketing Memorandum, which includes the cover page, and 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 Remarketing Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Financial Advisor or the Remarketing Agents.

This Remarketing Memorandum contains, in part, estimates and matters of opinion and certain forward-looking statements 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 Remarketing Agents have provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agents have reviewed the information in this Remarketing Memorandum in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy of completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Remarketing Memorandum 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 since the date hereof. 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 (the “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 THIS OFFERING, THE REMARKETING AGENTS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

None of the District, the Financial Advisor or the Remarketing Agents make any representation or warranty with respect to the information contained in this Remarketing Memorandum regarding The Depository Trust Company, New York, New York (“DTC”) or its Book-Entry-Only System or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” as such information has been provided by DTC and TEA, respectively.

The agreements of the District and others related to the Bonds are contained solely in the Order and contracts described herein. Neither this Remarketing Memorandum 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 REMARKETING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

DISTRICT ADMINISTRATION

Elected Officials

Name	Office	Length of Service	Term Expires (May)	Occupation
Juan Mancha	President	4 years	2020	Food Services Business Owner
Esequiel Mendoza	Vice President	1 year	2020	Retired
Christine Carrillo	Secretary	4 years	2020	Homemaker
David Abundis	Trustee	11 years	2019	Director of Federal and State Programs
Jesus Tejada	Trustee	1 year	2020	Insurance Agent
Carlos Quezada	Trustee	2 years	2019	Attorney
Ricardo Moreno	Trustee	2 years	2019	Educator

Selected Administrative Staff

Name	Office	Years with District
Rey Madrigal	Superintendent of Schools	36
Richard Hernandez	Assistant Superintendent for Business	27

Consultants and Advisors

Auditors.....Garza/Gonzalez & Associates
San Antonio, Texas

Bond CounselNorton Rose Fulbright US LLP
San Antonio, Texas

Financial AdvisorRBC Capital Markets, LLC
San Antonio, Texas

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The cover page hereof, this Table of Contents and Appendices attached hereto, and any addenda, supplement, or amendment hereto, are part of this Remarketing Memorandum.

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REMARKETING MEMORANDUM RELATING TO
\$59,775,000
HARLANDALE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015

INTRODUCTORY STATEMENT

This Remarketing Memorandum (the “Remarketing Memorandum”), which includes the Appendices hereto, provides certain information regarding the remarketing of \$59,775,000 Harlandale Independent School District, Variable Rate Unlimited Tax School Building Bonds, Series 2015 (the “Bonds”). Except as otherwise indicated herein, capitalized terms used in this Remarketing Memorandum have the same meanings assigned to such terms in the order authorizing the Bonds adopted by the Board of Trustees (the “Board”) of the Harlandale Independent School District (the “District”) on July 28, 2015 (the “Order”) and the order authorizing the remarketing of the Bonds adopted by the Board on April 16, 2018 (the “Remarketing Order”).

All financial and other information presented in this Remarketing Memorandum 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 that financial and other information, will necessarily continue or be repeated in the future (see “FORWARD-LOOKING STATEMENTS”).

There follows in this Remarketing Memorandum descriptions of the Bonds and certain information regarding 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’s Financial Advisor, RBC Capital Markets, LLC, San Antonio, Texas, at the address provided under “DISTRICT ADMINISTRATION” appearing on page iv hereof, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Remarketing Memorandum speaks only as of its date and the information contained herein is subject to change. A copy of the final Remarketing Memorandum will be submitted to the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access system. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertaking of the District to provide certain information on a continuing basis.

The District is a political subdivision of the State of Texas (the “State” or “Texas”) located in Bexar County, Texas. The District is governed by a seven-member Board, the members of which serve staggered four-year terms, with elections being held in May of every odd-numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

THE BONDS

Authorization

The Bonds were initially issued in the principal amount of \$60,820,000 pursuant to authority conferred by the Constitution and the general laws of the State, including Chapter 45, as amended, Texas Education Code and Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), an election held in the District on May 9, 2015, and the Order. The Bonds are multimodal variable rate obligations, initially issued in an interest rate period (the “Initial Rate Period”) during which they bear interest at an initial term rate (the “Initial Rate”). The conversion and remarketing of the Bonds from the Initial Rate Period to a Fixed Rate Period and the New Term Rate Period (as each such term is hereafter defined) that is the subject of this Remarketing Memorandum is authorized pursuant to the Remarketing Order.

Use of Proceeds

Proceeds from the sale of the Bonds were originally used for the purpose of (i) designing, constructing, renovating, acquiring, and equipping school facilities in the District and the purchase of the necessary sites for school facilities, and (ii) paying the costs of issuance of the Bonds. The proceeds to be derived from this remarketing of the remarketed Bonds will be used to repay existing holders of Bonds upon such holders’ mandatory tender thereof.

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from a direct and continuing ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. Additionally, as further described in the following subsection, payment of the Bonds is guaranteed by the corpus of the Permanent School Fund of State of Texas (see “THE BONDS – Permanent School Fund Guarantee”).

Permanent School Fund Guarantee

In connection with their initial issuance, the Bonds were guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). The Bonds remain guaranteed under such Program subsequent to their remarketing as herein described; however, the Texas Permanent School Fund guarantee is not effective with respect to the payment of the Purchase Price (defined herein) for tendered Bonds. In the event of default, registered owners will receive covered payments from the corpus of the Texas Permanent School Fund (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Remarketing and Conversion of Bonds from Initial Rate Period; Remarketing Order

The Initial Rate Period expires on August 14, 2018. Pursuant to the terms of the Order, the Bonds, in the Initial Rate Period, are subject to mandatory tender, without right of retention by the owners thereof, on August 15, 2018 (which is the day immediately succeeding the conclusion of the Initial Rate Period; such date is herein referred to as the “Mandatory Tender Date”). Under the Order, the District is required to cause the Bonds tendered for purchase on the Mandatory Tender Date to be redeemed or remarketed and sold to new holders (the proceeds from which, in the case of a remarketing, to be used to pay the Purchase Price of tendered Bonds); provided, however, that should the date for tender for the Bond occur on an Interest Payment Date, the accrued interest portion of the Purchase Price will be paid by the District.

On April 16, 2018, the Board adopted the Remarketing Order authorizing the conversion and remarketing of Bonds tendered for purchase on the Mandatory Tender Date. Pursuant to the Remarketing Order, (i) \$7,625,000 in tendered Bonds will be converted and remarketed into a Fixed Rate Period, commencing on August 15, 2018, during which such Bonds (the “Fixed Rate Bonds”) will bear interest at Fixed Rates to stated maturity, (ii) \$52,150,000 in tendered Bonds will be converted and remarketed into a new Term Rate Period (the “New Term Rate Period”), commencing on August 15, 2018 and concluding on August 14, 2021, during which such Bonds (the “Term Rate Bonds”) bear interest at a Term Rate of 3.00% (the “New Term Rate”), and (iii) \$1,045,000 in tendered Bonds, representing the remainder of the tendered Bonds, will be redeemed pursuant to the optional redemption provisions applicable thereto. The principal amounts, maturity dates, interest rates, initial yields, tender date (with respect to the Term Rate Bonds), and certain Term Rate Bonds’ redemption provisions are provided in the tables appearing on page ii hereof.

In the Remarketing Order, the Board delegated to certain authorized officials of the District the ability to execute a conversion certificate (the “Conversion Certificate”) evidencing final terms relating to the Bonds, as converted and remarketed. The Conversion Certificate was executed by an authorized official of the District on July 26, 2018.

In addition to the foregoing, the District, in the Remarketing Order, amended certain terms and provisions of the Order concerning the administration of the Bonds, while outstanding. The descriptions of these Bond characteristics within this Remarketing Memorandum incorporate such amended provisions of the Order. The Remarketing Agents (defined below), at the time of settlement of the remarketed Bonds, consented to the amendment of the Order accomplished by the Board’s adoption of the Remarketing Order.

AT THE CONCLUSION OF THE NEW TERM RATE PERIOD, THE TERM RATE BONDS ARE SUBJECT TO CONVERSION TO ANOTHER INTEREST RATE MODE OR MODES UPON THE CONDITIONS DESCRIBED IN THE ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH TERM RATE BONDS. THIS REMARKETING MEMORANDUM IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO ANY BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE MODE OR INTEREST RATE PERIOD (INCLUDING ANY SUBSEQUENT TERM RATE PERIOD). PURCHASERS OF THE BONDS SHOULD NOT RELY ON THIS REMARKETING MEMORANDUM FOR INFORMATION CONCERNING ANY OTHER INTEREST RATE MODE OR INTEREST RATE PERIOD FOR THE BONDS OTHER THAN THE INTEREST PERIODS INTO WHICH THE BONDS ARE NOW BEING REMARKETED.

General Description

Authorized Denominations. The Bonds are issued in denominations of \$5,000.

Calculation and Payment of Interest; Interest Payment Dates. Interest on the Bonds, as remarketed, commences to accrue on the first day of their new interest rate periods and is payable on February 15 and August 15 of each year, commencing February 15, 2019 and continues through (i) stated maturity, with respect to the Fixed Rate Bonds, and (ii) the hereinafter-defined Conversion Date with respect to the Term Rate Bonds. Such interest on the Bonds, except with respect to the Term Rate Bonds when bearing interest at a Stepped Rate (defined below) as further described below under the subcaption “THE BONDS – Provisions Applicable to Term Rate Bonds – Tender Provisions – Mandatory Tender”, is calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be paid by check, sent by first class mail, to the owner of record on the Record Date (defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar (defined herein) requested by and at the risk and expense of the owner. The Bonds will be issued as Book-Entry-Only securities through The Depository Trust Company, New York, New York (“DTC”). Use of the DTC Book-Entry-Only System will affect the timing and receipt of payment of interest on and principal of the Bonds. (See “BOOK ENTRY- ONLY-SYSTEM” herein.)

Tender and Redemption. The Fixed Rate Bonds are not subject to conversion of interest rate convention, tender, or redemption prior to stated maturity. The Term Rate Bonds are not subject to tender prior to the expiration of the New Term Rate Period; however, upon expiration of the New Term Rate Period, the Term Rate Bonds are subject to mandatory tender, without right of retention by the owners thereof, at which time the Term Rate Bonds will be remarketed and sold to new holders into a successive interest rate period, with the proceeds thereof used to pay the Purchase Price of such tendered Term Rate Bonds. The Term Rate Bonds are also subject to optional redemption, as described herein. (See “THE BONDS – Provisions Applicable to Term Rate Bonds” and “THE BONDS – Redemption” herein.)

Paying Agent/Registrar. The Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “REGISTRATION, TRANSFER, AND EXCHANGE – Paying Agent/Registrar” for a discussion regarding the District’s obligation to maintain a Paying Agent/Registrar while the Bonds are outstanding.

Book-Entry System of Registration and Payment. The Bonds are issued as Book-Entry-Only securities through The Depository Trust Company, New York, New York (“DTC”). Use of the DTC Book-Entry-Only System will effect the timing and receipt of payment of interest on and principal of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM.”)

Tender Agent. The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, serves as the tender agent (the “Tender Agent”), for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, Attn: Saul Ramirez, 919 Congress Avenue, Suite 500, Austin, Texas 78701. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, Saul Ramirez, 919 Congress Avenue, Suite 500, Austin, Texas 78701.

Remarketing Agent and Remarketing Agreement. In the Order, the District has covenanted to identify and enter into a contract with a qualified financial institution to serve as remarketing agent for the Bonds (the “Remarketing Agent”) prior to the commencement of the remarketing of the Bonds, and to retain such Remarketing Agent for so long, as required by the provisions of the Order. Hilltop Securities Inc., Siebert Cisneros Shank & Co., L.L.C., and UBS Financial Services, Inc. have been appointed to serve as Remarketing Agents for the remarketing of the Bonds described herein (the “Remarketing Agents”), whose role as Remarketing Agent under the Order will terminate upon settlement of the remarketed Bonds on August 15, 2018. After such remarketing of the Bonds, the District is not required to engage or maintain a Remarketing Agent until the commencement of the remarketing period in advance of the Conversion Date occurring immediately after the expiration of the New Term Rate Period for the Term Rate Bonds. The District anticipates at that time identifying and contracting with a new Remarketing Agent for this subsequent remarketing of Term Rate Bonds.

Provisions Applicable to Term Rate Bonds

New Term Rate and New Term Rate Period. As stated above, the Term Rate Bonds will bear interest at the New Term Rate for the duration of the New Term Rate Period. Immediately after conclusion of the New Term Rate Period, on their mandatory tender date (which date is also referred to and hereinafter defined as the “Conversion Date”), the Term Rate Bonds will be converted to a new interest rate mode and period and remarketed to new holders, all pursuant to and subject to the terms of the Order (which provisions are summarized below).

Rate Mode Changes after New Term Rate Period. Following the New Term Rate Period, the Term Rate Bonds may be converted, in whole or in part, into (i) a new interest period of at least one year in duration and during which such remarketed Bonds will bear interest at a term rate (such term rate of interest, a “Future Term Rate”; such duration during which remarketed Bonds bear interest at a Term Rate, the “Future Term Rate Period”) or (ii) an interest rate period during which such remarketed Bonds bear interest at fixed rates through the earlier of stated maturity or (as and if applicable) prior redemption (such fixed rates of interest, the “Future Fixed Rates”; such duration during which remarketed Bonds bear interest at Future Fixed Rates, the “Future Fixed Rate Period”). Future Term Rates and Future Fixed Rates, as applicable, will be determined by the Remarketing Agent and the District in accordance with the Order and as described below. A conversion of any Term Rate Bonds to a Future Fixed Rate Period is irreversible and such converted Bonds will remain in the Future Fixed Rate Period, bearing interest at the applicable Future Fixed Rates, through the earlier of stated maturity or (as and if applicable) prior redemption.

The Paying Agent/Registrar is required to give notice to the owners of the Term Rate Bonds of the conversion to a new interest rate mode at least 30 days prior to the Conversion Date. Each notice of a change between interest rate modes will be sent by first class mail to each owner’s address as it appears in the registration books of the Paying Agent/Registrar and will state: (a) the effective date and the type of interest rate mode to which the change will be made; (b) the date by which the Remarketing Agent will determine the new interest rate or rates; and (c) that the Term Rate Bonds will be subject to mandatory tender on the effective date of the change in the interest rate mode, the procedure for such tender, including the date and time that any notices must be received.

Any conversion to a new interest mode and period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the effect that the conversion will not adversely affect the excludability of interest on such Bonds from gross income of the owners thereof for federal income tax purposes if such conversion results in a reissuance of the remarketed Bonds under applicable federal tax law. The Original Opinion (defined herein) of Bond Counsel (defined herein) expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken which requires the receipt of an opinion of a nationally recognized bond counsel.

Bonds in the New Term Rate Period or a subsequent Future Term Rate Period cannot be converted to a new interest rate mode and period until conclusion of the then-existing interest rate period (which conversion will take place on the interest payment date immediately succeeding conclusion of the then-existing interest rate period).

Any owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each interest rate period (each, a “Rate Period”) after the New Term Rate Period, the rate of interest on those Bonds that then-remain outstanding (the “Remarketed Term Rate Bonds”) will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Remarketed Term Rate Bonds being not less than 100% of the principal amount thereof. The date of such determination is defined herein as the “Rate Determination Date”.

The determination by the Remarketing Agent of the rate or rates of interest to be borne by the Remarketed Term Rate Bonds will be conclusive and binding on the holders of the Remarketed Term Rate Bonds, the District, the Paying Agent/Registrar and the Tender Agent. Failure by the Paying Agent/Registrar to give notice to the Bondholders, or any defect therein, will not affect the interest rate borne by the Remarketed Term Rate Bonds or the rights of the owners thereof. In no event will the interest rate borne by any Bonds, including the Remarketed Term Rate Bonds, exceed the “Highest Rate”, which (as provided in the Order) is the lesser of 10.00% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

Tender Provisions. No Optional Tender. The Term Rate Bonds are not subject to optional tender.

Mandatory Tender. The Term Rate Bonds are required to be tendered for purchase to the Tender Agent, without the right of retention, on August 15, 2021 (which is the day immediately following the conclusion of the New Term Rate Period; such date, the “Conversion Date”), but such mandatory tender for purchase shall actually occur on August 16, 2021, which is the first business day to occur after August 15, 2021; this shall not, however, result in an accrual of interest beyond the stated expiration date of the New Term Rate Period).

Payment of the Purchase Price (defined in the Order to mean, with respect to each Term Rate Bond (or any portion thereof) tendered for purchase, the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase) of Term Rate Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds.

If the Term Rate Bonds are not converted and remarketed to new purchasers on the Conversion Date, the District shall have no obligation to purchase the Term Rate Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Order or the Term Rate Bonds, the mandatory tender will be deemed to have been rescinded for that date with respect to the Term Rate Bonds subject to such failed remarketing only, and such Term Rate Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Term Rate Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District’s discretion upon delivery of at least one day’s notice to the holders of Term Rate Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the New Term Rate Period for all other purposes of the Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Order to cause the Term Rate Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at not less than par, in such interest rate mode or modes as the District directs, at a rate not exceeding the Highest Rate. The Order provides that the Stepped Rate means a rate per annum equal to 8.00%, calculated on the basis of twelve 30 day months and the number of days actually elapsed.

Interest on any Term Rate Bond that is not tendered on the Conversion Date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the Conversion Date. Thereafter, the owner of such Term Rate Bond will not be entitled to any payment other than the Purchase Price for such Term Rate Bond from money held by the Tender Agent for such payment, and such Term Rate Bond will not otherwise be outstanding or entitled to the benefits of the Order. On the Conversion Date, the Tender Agent will authenticate and deliver substitute Term Rate Bonds in lieu of such untendered Term Rate Bonds.

Remarketing and Purchase. The Remarketing Agent is required, at a minimum, to use its best efforts to sell such Term Rate Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming Conversion Date or as quickly as possible thereafter.

The Purchase Price of Term Rate Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Term Rate Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Term Rate Bonds, no purchase will be consummated.

Conversion to Fixed Rate. The Order provides that, at the option of the District, the Term Rate Bonds may be converted in whole or in part to Bonds bearing interest at Future Fixed Rates on the Conversion Date. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Term Rate Bonds to be converted to Bonds bearing interest at Future Fixed Rates. Solely and exclusively with respect to the Remarketing Agent’s setting of Future Fixed Rates on the Term Rate Bonds to be converted to Bonds bearing interest at Future Fixed Rates on the Conversion Date, the Remarketing Agent, in consultation with and subject to the approval of the District, shall determine the rates for such converted Term Rate Bonds that will cause such Term Rate Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of converted Term Rate Bonds. In addition, the District may seek competitive bids to determine the interest rates on Term Rate Bonds converted to Bonds bearing interest at Future Fixed Rates.

To exercise its option, the District must deliver to the Paying Agent/Registrar and the Tender Agent written notice at least 45 calendar days prior to the interest payment date on which the Fixed Rate mode is to become effective (the “Fixed Rate Conversion Date”). The Term Rate Bonds converted to Bonds bearing interest at Future Fixed Rates on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than being subject to mandatory tender for purchase) as set forth in the Order with respect to Term Rate Bonds bearing interest at the New Term Rate. Notwithstanding the previous sentence, in connection with a conversion of Term Rate Bonds to Bonds bearing interest at Future Fixed Rates, the District may elect, at its sole option, to provide for serial maturities, revised redemption provisions and other terms applicable to the pricing of the Term Rate Bonds on and after the Fixed Rate Conversion Date.

The Paying Agent/Registrar is required to give notice by mail to all owners of the conversion of Term Rate Bonds to Bonds bearing interest at Future Fixed Rates not less than 30 calendar days prior to the Fixed Rate Conversion Date. Such notice is required to (a) specify the Fixed Rate Conversion Date and the date by which the District will determine the Future Fixed Rates; and (b) state that the Bonds will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date without the right of the owners to retain their Bonds.

Redemption

Optional Redemption. The Fixed Rate Bonds are not subject to optional redemption prior to stated maturity.

The Term Rate Bonds are callable, at the District’s option, in whole or in part (and if in part, by lot) and in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2020 or any date thereafter (including on the Conversion Date), at the redemption price of par plus accrued interest to the date of redemption.

Scheduled Mandatory Redemption. The Term Rate Bonds are subject to mandatory redemption prior to stated maturity as follows:

<u>Mandatory Redemption</u>		<u>Mandatory Redemption</u>	
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
August 15, 2023	\$ 330,000	August 15, 2034	\$ 2,255,000
August 15, 2024	1,620,000	August 15, 2035	2,340,000
August 15, 2025	1,620,000	August 15, 2036	2,425,000
August 15, 2026	1,680,000	August 15, 2037	2,515,000
August 15, 2027	1,740,000	August 15, 2038	2,605,000
August 15, 2028	1,810,000	August 15, 2039	2,705,000
August 15, 2029	1,875,000	August 15, 2040	2,800,000
August 15, 2030	1,945,000	August 15, 2041	2,905,000
August 15, 2031	2,020,000	August 15, 2042	3,005,000
August 15, 2032	2,095,000	August 15, 2043	3,115,000
August 15, 2033	2,175,000	August 15, 2044	3,225,000
		August 15, 2045	3,345,000

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

Special Mandatory Redemption. While the Term Rate Bonds are Outstanding and accruing interest at the Term Rate which includes a period longer than the period for which taxes are then being assessed, the District may, at its discretion and in accordance with and as permitted by the Order, budget for such fiscal year and levy taxes for the payment of interest on the Term Rate Bonds based on an interest rate on the Term Rate Bonds equal to the actual rate borne thereby or up to the Highest Rate per annum. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Term Rate Bonds being equal to a rate of interest other than the actual rate borne by the Term Rate Bonds up to the Highest Rate, the District shall determine whether the interest paid on the Term

Rate Bonds in such fiscal year is less than the amount of revenue collected. If in such circumstance the amount of interest paid on the Term Rate Bonds is less than the amount collected, the District shall cause the difference between the amount budgeted at the assumed interest rate and the amount paid on the Term Rate Bonds ("Excess Interest Funds") to be allocated and appropriated for the payment of the mandatory redemption of Term Rate Bonds on the first August 15 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than \$100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than \$100,000, the District shall cause Term Rate Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the August 15 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Term Rate Bonds in accordance with the provisions of this paragraph shall be in addition to the amount of Term Rate Bonds to be mandatorily redeemed as set forth in the schedule above in the years shown.

On or before July 1 of each year preceding each mandatory redemption date the Term Rate Bonds are to be mandatorily redeemed, the District will notify the Paying Agent/Registrar in writing of the principal amount of Term Rate Bonds to be mandatorily redeemed with Excess Interest Funds on the following August 15, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Term Rate Bonds or portions thereof to be redeemed.

Notice of Redemption. The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when Bonds bear interest at the New Term Rate or a Future Term Rate. All notices of redemption shall (i) specify the date of redemption for the Term Rate Bonds, (ii) identify the Term Rate Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Term Rate Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Term Rate Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Term Rate Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Term Rate Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Term Rate Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Term Rate Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Term Rate Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on the Conversion Date.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE TERM RATE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provision. The Paying Agent/Registrar, so long as a book-entry system is used for the Term Rate Bonds, will send any notice of redemption, or other notices with respect to the Term Rate Bonds only to DTC (or any successor securities depository for the Term Rate Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will not affect the validity of the redemption of the Term Rate Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Term Rate Bonds by the District will reduce the outstanding principal amount of such Term Rate Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Term Rate Bonds held for the account of Direct 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 Term Rate Bonds from the Beneficial Owners. Any such selection of Term Rate Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Term Rate Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Term Rate Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Legality

The Bonds were originally delivered to their initial purchasers, together with the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters pursuant to a legal opinion (the "Original Opinion") of Norton Rose Fulbright US LLP, as bond counsel to the District ("Bond Counsel").

In connection with the remarketing of the Bonds as described herein, Bond Counsel has not been asked to and has not rendered any current opinion as to the current excludability of interest on the Bonds; however, in accordance with the requirements of the Order, settlement of the remarketing of the Bonds as described herein will be conditioned on delivery of an Opinion of Bond Counsel to the Paying Agent/Registrar to the effect that the conversion of the Bonds' interest rate modes and periods will not adversely affect the excludability of interest of the Bonds from gross income of the owners thereof for federal income tax purposes.

See "LEGAL MATTERS" and "TAX MATTERS" in this Remarketing Memorandum and "BOND COUNSEL'S ORIGINAL OPINION" attached hereto as Appendix D.

Payment Record

The District has never defaulted with respect to the payment of its tax supported indebtedness.

Defeasance of the Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Government Obligations (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Government Obligations sufficient to make such payment. The sufficiency of deposits hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Order. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (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 of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other Government Securities, notwithstanding the fact that such Government Securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Term Rate Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the District's right to redeem Term Rate Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Term Rate Bonds, to call for redemption, at an earlier date, those Term Rate Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Term Rate Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Term Rate 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 of any of the Bonds as described herein will automatically cancel the Permanent School Fund Guarantee with respect to the Bonds defeased. (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

Amendments

The District may, without the consent of or notice to any registered owners, amend, change, or modify the Order as may be required (i) by the provisions thereof, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission herein, or (iii) in connection with any other change which is not to the prejudice of the registered owners. The District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, change, modify, or rescind any provisions of the Order; provided that without the consent of all of the registered owners affected, no such amendment, change, modification, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount or redemption price thereof or the rate of interest thereon, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, change, modification, or rescission.

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the 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, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has 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 issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (see "THE BONDS – Authorization" herein), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas Legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. 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 U.S. 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") 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 Remarketing Memorandum. The District, the Financial Advisor and the Remarketing Agents believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity 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 a S&P Global

Ratings' rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

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

All 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 payable 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 Bonds 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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

Use of Certain Terms in Other Sections of this Remarketing Memorandum

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas serves as Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar, the District has agreed to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Future Registration

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

Record Date for Interest Payment

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

Limitation on Transfer of the Bonds

Neither the District nor the Paying Agent/Registrar shall be required to transfer 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 Term Rate Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Term Rate Bond.

Replacement of the Bonds

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Reference is made to the Property Tax Code for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board of Trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes; certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and windpowered energy devices; most individually owned automobiles; \$10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; an exemption from \$5,000 to a maximum of \$12,000 for real or personal property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; in the case of a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability, exemption from taxation of the total appraised value of the veteran's residence homestead; \$25,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by State law from increasing the total ad valorem tax of the residence homestead of persons who are 65 years of age or older or disabled above the amount of tax imposed in the year such residence qualified for an exemption based on the age or disability of the owner; a "disabled" person is one who is "under a disability for purposes of payment of disability insurance benefits under the Federal Old Age, Survivors and Disability Insurance." The freeze on ad valorem taxes on the homesteads of persons who are 65 years of age or older and persons who are disabled is also transferable to a different residence homestead. Effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse. Pursuant to state law and a Constitutional amendment, taxes paid on the residence homestead of persons 65 years of age or over of disabled persons were reduced to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year. (See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Overview.") The school property tax limitation provided by the Constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax Freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by Section 11.253 of the Property Tax Code, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. Section 11.253 permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

A city may create, and a county may participate in a tax increment financing district ("TIF") within the city or county with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city to contribute all or part of future ad valorem taxes levied and collected against the "incremental

value” (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits municipalities and counties to initiate tax abatement agreements. In addition, credit will not be given by the Commissioner of Education in determining a district’s property value wealth per student for (1) the appraisal value, in excess of the “frozen” value, of property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that levy ad valorem taxes in the zone of its intention to create the zone and the zone is created and has its final project and financing plan approved by the municipality prior to August 31, 1999) or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district’s rollback tax rate. (See “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate.”)

Valuation of Property for Taxation

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

State law requires the appraised value of a residence homestead to be based solely on the property’s value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property’s market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property’s appraised value for the preceding tax year, (b) the appraised value of the property for the preceding tax year; and (c) the market value of all new improvements to the property.

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

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

Residential Homestead Exemption

Under Section 1-b, Article VIII of the Texas Constitution and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older or the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the

political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

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

Section 11.131 of the Texas Tax Code states that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries.

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

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

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the first responder's death and said property was the first responder's residence homestead at the time of death. Such exemption is surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

Voters in the State approved a constitutional amendment on November 3, 2015 increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000, and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption.

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists

of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service. The rollback tax rate for a school district is the lesser of (A) the sum of (1) the product of the district's "state compression percentage" for that year multiplied by \$1.50, (2) the rate of \$0.04, (3) any rate increases above the rollback tax rate in prior years that were approved by voters, and (4) the district's current debt rate, or (B) the sum of (1) the district's effective maintenance and operations tax rate, (2) the product of the district's state compression percentage for that year multiplied by \$0.06, and (3) the district's current debt rate (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" for a description of the "state compression percentage"). If for the preceding tax year a district adopted a maintenance and operations tax rate that was less than its effective maintenance and operations tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted a maintenance and operations tax rate for the preceding tax year equal to its effective maintenance and operations tax rate for that preceding tax year.

The "effective maintenance and operations tax rate" for a school district is the tax rate that, applied to the current tax values, would provide local maintenance and operating funds, when added to state funds to be distributed to the district pursuant to Chapter 42 of the Texas Education Code for the school year beginning in the current tax year, in the same amount as would have been available to the district in the preceding year if the funding elements of wealth equalization and state funding for the current year had been in effect for the preceding year.

Section 26.05 of the Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. 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 budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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. Before the later of September 30 or the 60th day after the date that the certified appraisal roll is received by the District, the rate of taxation must be set by the Board of the District based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service and maintenance and operations purposes. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrues interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may, under certain circumstances, be imposed by the District. The 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 under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes on real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. The automatic stay in bankruptcy will prevent the automatic attachment of tax liens with respect to post-petition tax years unless relief is sought and granted by the bankruptcy judge. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings which restrict the collection of taxpayer debts. 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 Appraisal District has the responsibility for appraising the majority of the property in the District as well as other taxing units in Bexar County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of various Bexar County political subdivisions. The District’s taxes are collected by the Bexar County Tax Assessor/Collector.

The District grants a State mandated \$25,000 general residence homestead exemption.

The District grants a State mandated residence homestead exemption for disabled veterans.

The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$10,000.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

The District has adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

See Table 1 included in APPENDIX A hereto for listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt. The District does not tax freeport property.

On October 17, 2011, the District’s Board adopted a resolution authorizing the continued taxation of goods-in-transit for the 2012 tax year and beyond.

The District has not adopted a tax abatement policy. The District does not tax nonbusiness personal property.

Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty for delinquent taxes remains at 12%, and interest increases at the rate of 1% each month. In addition, an additional penalty of 20% is assessed on July 1 in order to defray attorney collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Discounts for the early payment of taxes are not permitted.

EMPLOYEES’ BENEFIT PLANS

The District’s employees participate in a retirement plan (the “Plan”) with the State. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended June 30, 2017, the State contributed \$4,795,553 to TRS on behalf of the District’s employees and the District paid additional State contributions of \$3,604,420. Aside from the District’s contribution to TRS, the District has no pension fund expenditures or liabilities. The District generally does not offer any post-employment retirement benefits and has no liabilities for “Other Post Employment Retirement Benefits” as defined in General Accounting Standards Board (“GASB”) Statement No. 45. For a discussion of the TRS Plan, see “Note P – Defined Benefit Pension Plan” of the audited financial statements of the District that are attached hereto as APPENDIX C.

During the year ended June 30, 2017, employees of the District were covered by a fully-insured health insurance plan (the “Health Care Plan”). The District contributed \$256.50 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll

withholdings to pay premiums for dependents. See “Note R – Health Care Coverage” of the audited financial statements of the District that are attached hereto as APPENDIX C.

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, including the District, 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.

In June 2012, GASB Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding 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. This means that 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 (See Exhibit B-1 in “APPENDIX C – AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED JUNE 30, 2017”). Such reporting began with the District’s fiscal year ended June 30, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Texas Education Code, Chapters 41 through 46, as amended.

Funding for school districts in the State is provided primarily from State and local sources. State funding for all school districts is provided through a set of funding formulas comprising the “Foundation School Program,” as well as two facilities funding programs. Generally, the Finance System is designed to promote wealth equalization among school districts by balancing State and local sources of funds available to school districts. In particular, because districts with relatively high levels of property wealth per student can raise more local funding, such districts receive less State aid, and in some cases, are required to disburse local funds to equalize their overall funding relative to other school districts. Conversely, because districts with relatively low levels of property wealth per student have limited access to local funding, the Finance System is designed to provide more State funding to such districts. Thus, as a school district’s property wealth per student increases, State funding to the school district is reduced. As a school district’s property wealth per student declines, the Finance System is designed to increase that district’s State funding. The Finance System provides a similar equalization system for facilities funding wherein districts with the same tax rate for debt service raise the same amount of combined State and local funding. Facilities funding for debt incurred in prior years is expected to continue in future years; however, State funding for new school facilities has not been consistently appropriated by the Texas Legislature, as further described below.

Local funding is derived from collections of ad valorem taxes levied on property located within each district’s boundaries. School districts are authorized to levy two types of property taxes: a limited M&O tax to pay current expenses and an unlimited interest and sinking fund (“I&S”) tax to pay debt service on bonds. Generally, under current law, M&O tax rates are subject to a statutory maximum rate of \$1.17 per \$100 of taxable value for most school districts (although a few districts can exceed the \$1.17 limit as a result of authorization approved in the 1960s). Current law also requires school districts to demonstrate their ability to pay debt service on outstanding indebtedness through the levy of an ad valorem tax at a rate of not to exceed \$0.50 per \$100 of taxable property at the time bonds are issued. Once bonds are issued, however, districts may levy a tax to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS” herein). As noted above, because property values vary widely among school districts, the amount of local funding generated by the same tax rate is also subject to wide variation among school districts.

Local Funding for School Districts

The primary source of local funding for school districts is collections from ad valorem taxes levied against taxable property located in each school district. Prior to reform legislation that became effective during the 2006-2007 fiscal year (the “Reform Legislation”), the maximum M&O tax rate for most school districts was generally limited to \$1.50 per \$100 of taxable value. At the time the Reform Legislation was enacted, the majority of school districts were levying an M&O tax rate of \$1.50 per \$100 of taxable value. The Reform Legislation required each school district to “compress” its tax rate by an amount equal to the “State Compression Percentage”. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner (defined herein). For the 2018-19 State fiscal biennium, the State Compression Percentage has been set at 66.67%, effectively setting the maximum compressed M&O tax rate for most school districts at \$1.00 per \$100 of taxable value. School districts are permitted, however, to generate additional local funds by raising their M&O tax rate by up to \$0.04 above the compressed tax rate without voter approval (for most districts, up to \$1.04 per \$100 of taxable value). In addition, if the voters approve a tax rate increase through a local referendum, districts may, in general, increase their M&O tax rate up to a maximum M&O tax rate of \$1.17 per \$100 of taxable value and receive State equalization funds for such taxing effort (see “AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate” herein). Elections authorizing the levy of M&O taxes held in certain school districts under older laws, however, may subject M&O tax rates in such districts to other limitations (See “TAX RATE LIMITATIONS” herein).

State Funding for School Districts

State funding for school districts is provided through the Foundation School Program, which provides each school district with a minimum level of funding (a “Basic Allotment”) for each student in average daily attendance (“ADA”). The Basic Allotment is calculated for each school district using various weights and adjustments based on the number of students in average daily attendance and also varies depending on each district’s compressed tax rate. This Basic Allotment formula determines most of the allotments making up a district’s basic level of funding, referred to as “Tier One” of the Foundation School Program. The basic level of funding is then “enriched” with additional funds known as “Tier Two” of the Foundation School Program. Tier Two provides a guaranteed level of funding for each cent of local tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates above \$1.00 per \$100 of taxable value). The 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. In 2017, the 85th Texas Legislature appropriated funds in the amount of \$1,378,500,000 for the 2018-19 State fiscal biennium for the EDA, IFA, and NIFA.

Tier One and Tier Two allotments represent the State's share of the cost of M&O expenses of school districts, with local M&O taxes representing the 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. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Texas Legislature. Since future-year IFA awards were not funded by the Texas Legislature for the 2018-19 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service on new bonds issued by districts to construct, acquire and improve facilities must be funded solely from local I&S taxes.

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

As described above, the cost of the basic program is based on an allotment per student known as the "Basic Allotment". For the 2018-19 State fiscal biennium, the Basic Allotment is \$5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment". The Adjusted Allotment is used to compute a "regular program allotment", as well as various other allotments associated with educating students with other specified educational needs.

Tier Two supplements the basic funding of Tier One and provides two levels of enrichment with different guaranteed yields (i.e., guaranteed levels of funding by the State) depending on the district's local tax effort. The first six cents of tax effort that exceeds the compressed tax rate (for most districts, M&O tax rates ranging from \$1.00 to \$1.06 per \$100 of taxable value) will, for most districts, generate a guaranteed yield of \$99.41 and \$106.28 per cent per weighted student in average daily attendance ("WADA") in the 2017-18 and 2018-19 State fiscal years, respectively. The second level of Tier Two is generated by tax effort that exceeds the district's compressed tax rate plus six cents (for most districts eligible for this level of funding, M&O tax rates ranging from \$1.06 to \$1.17 per \$100 of taxable value) and has a guaranteed yield per cent per WADA of \$31.95 for the 2018-19 State fiscal biennium. Property-wealthy school districts that have an M&O tax rate that exceeds the district's compressed tax rate plus six cents are subject to recapture above this tax rate level at the equivalent wealth per student of \$319,500 (see "Wealth Transfer Provisions" below).

Previously, a district with a compressed tax rate below \$1.00 per \$100 of taxable value (known as a "fractionally funded district") received a Basic Allotment which was reduced proportionately to the degree that the district's compressed tax rate fell short of \$1.00. Beginning in the 2017-2018 fiscal year, the compressed tax rate of a fractionally funded district now includes the portion of such district's current M&O tax rate in excess of the first six cents above the district's compressed tax rate until the district's compressed tax rate is equal to the state maximum compressed tax rate of \$1.00. Thus, for fractionally funded districts, each eligible one cent of M&O tax levy above the district's compressed tax rate plus six cents will have a guaranteed yield based on Tier One funding instead of the Tier Two yield, thereby reducing the penalty against the Basic Allotment.

In addition to the operations funding components of the Foundation School Program discussed above, the Foundation School Program provides a facilities funding component consisting of the Instructional Facilities Allotment (IFA) program and the Existing Debt Allotment (EDA) program. These programs assist school districts in funding facilities by, generally, equalizing a district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Guaranteed Yield") in State and local funds for each cent of tax effort to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The guaranteed yield per cent of local tax effort per student in ADA has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where the State Legislature allocates appropriated funds for new IFA awards, a school district must apply to the Commissioner in accordance with rules adopted by the Commissioner before issuing the bonds to be paid with IFA state assistance. The total amount of debt service assistance over a biennium for which a district may be awarded is limited to the lesser of (1) the actual debt service payments made by the district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. The 85th State Legislature did not appropriate any funds for new IFA awards for the 2018-2019 State fiscal biennium; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded. State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") was the same as the IFA Guaranteed Yield (\$35 per cent of local tax effort per student in ADA). The 85th Texas Legislature changed the EDA Yield to the lesser of (i) \$40 or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which districts would have been entitled to if the EDA Yield were \$35. The yield for the 2017-2018 fiscal year is approximately \$37. The portion of a district's local debt service rate that qualifies for EDA assistance is limited to the first 29 cents of debt service tax (or a greater amount for any year provided by appropriation by the Texas Legislature). In general, a district's bonds are eligible for EDA assistance if (i) the district

made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the district receives IFA funding.

A district may also qualify for a NIFA allotment, which provides assistance to districts for operational expenses associated with opening new instructional facilities. The 85th Texas Legislature appropriated funds in the amount of \$23,750,000 for each of the 2017-18 and 2018-19 State fiscal years for NIFA allotments.

2006 Legislation

Since the enactment of the Reform Legislation in 2006, most school districts in the State have operated with a “target” funding level per student (“Target Revenue”) that is based upon the “hold harmless” principles embodied in the Reform Legislation. This system of Target Revenue was superimposed on the Foundation School Program and made existing funding formulas substantially less important for most school districts. The Reform Legislation was intended to lower M&O tax rates in order to give school districts “meaningful discretion” in setting their M&O tax rates, while holding school districts harmless by providing them with the same level of overall funding they received prior to the enactment of the Reform Legislation. To make up for this shortfall, the Reform Legislation authorized Additional State Aid for Tax Reduction (“ASATR”) for each school district in an amount equal to the difference between the amount that each district would receive under the Foundation School Program and the amount of each district’s Target Revenue funding level. However, in subsequent legislative sessions, the Texas Legislature has gradually reduced the reliance on ASATR by increasing the funding formulas, and beginning with the 2017-18 school year, the statutes authorizing ASATR are repealed (eliminating revenue targets and ASATR funding).

2017 Legislation

The 85th Texas Legislature, including the regular session which concluded on May 29, 2017 and the special session which concluded on August 15, 2017, did not enact substantive changes to the Finance System. However, certain bills during the regular session and House Bill 21, which was passed during the special session and signed by the Governor on August 16, 2017, revised certain aspects of the formulas used to determine school district entitlements under the Finance System. In addition to amounts previously discussed, the 85th Texas Legislature additionally appropriated funds to (i) establish a Financial Hardship Transition Program, which provides grants (“Hardship Grants”) to those districts which were heavily reliant on ASATR funding, and (ii) provide an Adjustment for Rapid Decline in Taxable Value of Property (“DPV Decline Adjustment”) for districts which experienced a decline in their tax base of more than four percent for tax years 2015 and 2016. A district may receive either a Hardship Grant or a DPV Decline Adjustment, but cannot receive both. In a case where a district would have been eligible to receive funding under both programs, the district will receive the greater of the two amounts.

Wealth Transfer Provisions

Some districts have sufficient property wealth per student in WADA (“wealth per student”) to generate their statutory level of funding through collections of local property taxes alone. Districts whose wealth per student generates local property tax collections in excess of their statutory level of funding are referred to as “Chapter 41” districts because they are subject to the wealth equalization provisions contained in Chapter 41 of the Texas Education Code. Chapter 41 districts may receive State funds for certain competitive grants and a few programs that remain outside the Foundation School Program. Otherwise, Chapter 41 districts are not eligible to receive State funding. Furthermore, Chapter 41 districts must exercise certain options in order to reduce their wealth level to equalized wealth levels of funding, as determined by formulas set forth in the Reform Legislation. For most Chapter 41 districts, this equalization process entails paying the portion of the district’s local taxes collected in excess of the equalized wealth levels of funding to the State (for redistribution to other school districts) or directly to other school districts with a wealth per student that does not generate local funds sufficient to meet the statutory level of funding; a process known as “recapture”.

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) \$514,000 per student in WADA with respect to that portion of a district’s M&O tax effort that does not exceed its compressed tax rate (for most districts, the first \$1.00 per \$100 of taxable value) and (ii) \$319,500 per WADA with respect to that portion of a district’s M&O tax effort that is beyond its compressed rate plus \$.06 (for most districts, M&O taxes levied above \$1.06 per \$100 in taxable value). So long as the State’s equalization program under Chapter 42 of the Texas Education Code is funded to provide tax revenue equivalent to that raised by the Austin Independent School District on the first six pennies of tax effort that exceed the compressed tax rate, then M&O taxes levied above \$1.00 but at or below \$1.06 per \$100 of taxable value (“Golden Pennies”) are not subject to the wealth equalization provisions of Chapter 41. Because funding at the Austin Independent School District level is currently being provided to school districts under Chapter 42 of the Texas Education Code, no recapture is currently associated with the Golden Pennies. Chapter 41 districts with a wealth per student above the lower equalized wealth level but below the higher equalized wealth level must equalize their wealth only with respect to the portion of their M&O tax rate, if any, in excess of \$1.06 per \$100 of taxable value.

Under Chapter 41, a district has five options to reduce its wealth per student so that it does not exceed the equalized wealth levels: (1) a district may consolidate by agreement with one or more districts to form a consolidated district; all property and debt of the consolidating districts vest in the consolidated district; (2) a district may detach property from its territory for annexation by a property-

poor district; (3) a district may purchase attendance credits from the State; (4) a district may contract to educate nonresident students from a property-poor district by sending money directly to one or more property-poor districts; or (5) a district may consolidate by agreement with one or more districts to form a consolidated taxing district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 41 district may also exercise any combination of these remedies. Options (3), (4) and (5) require prior approval by the transferring district's voters.

A district may not adopt a tax rate until its effective wealth per student is at or below the equalized wealth level. If a district fails to exercise a permitted option, the Commissioner must reduce the district's property wealth per student to the equalized wealth level by detaching certain types of property from the district and annexing the property to a property-poor district or, if necessary, consolidate the district with a property-poor district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring district's existing debt. The Commissioner has not been required to detach property in the absence of a district failing to select another wealth-equalization option.

The School Finance System as Applied to the District

The District's wealth per student for the 2017-18 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with wealth per student less than the equalized wealth value, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The District has made application to the Texas Education Agency (the "TEA") for a Permanent School Fund Guarantee of the Bonds and has received conditional approval for the Bonds to be guaranteed under the Guarantee Program (as defined and described below). The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the TEA and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor or the Remarketing Agents.

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

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

History and Purpose

The PSF was created with a \$2,000,000 appropriation by the Texas Legislature (the "Legislature") in 1854 expressly for the benefit of the public schools of Texas. The Constitution of 1876 stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the state, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U. S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, the PSF had as its main sources of revenues capital gains from securities

transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF. The State School Land Board (“SLB”) maintains the land endowment of the Fund on behalf of the Fund and is authorized to manage the investments of the capital gains, royalties and other investment income relating to the land endowment. The SLB is a three member board, the membership of which consists of the Commissioner of the Texas General Land Office (the “Land Commissioner”) and two citizen members, one appointed by the Governor and one by the Texas Attorney General (the “Attorney General”). As of August 31, 2017, the General Land Office (the “GLO”) managed approximately 21% of the PSF, as reflected in the fund balance of the PSF at that date.

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

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

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

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

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

The sole purpose of the PSF is to assist in the funding of public education for present and future generations. Prior to the adoption of the Total Return Constitutional Amendment, all interest and dividends produced by Fund investments flowed into the Available School Fund (the “ASF”), where they are distributed to local school districts and open-enrollment charter schools based on average daily attendance. Any net gains from investments of the Fund accrue to the corpus of the PSF. Prior to the approval by the voters of the State of the Total Return Constitutional Amendment, costs of administering the PSF were allocated to the ASF. With the approval of the Total Return Constitutional Amendment, the administrative costs of the Fund have shifted from the ASF to the PSF. In fiscal year 2017 distributions to the ASF amounted to an estimated \$212.49 per student and the total amount distributed to the ASF was \$1,056.4 million.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2017, when 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, 2017 is derived from the audited financial statements of the PSF, which are included in the Annual Report when it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2017 and for a description of the financial results of the PSF for the year ended August 31, 2017, the most recent year for which audited financial information regarding the Fund is available. The 2017 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2017 Annual Report or any other Annual Report. The TEA posts each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, the most recent disclosure for the Guarantee Program, the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (the “Investment Policy”), monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar.shtml. A list of the Fund’s equity and fixed income

holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

The Total Return Constitutional Amendment

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

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

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

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

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 2017, the Fund's financial assets portfolio was invested as follows: 43.16% in public market equity investments; 12.86% in fixed income investments; 9.99% in absolute return assets; 7.02% in private equity assets; 7.40% in real estate assets; 6.83% in risk parity assets; 5.44% in real return assets; 6.99% in emerging market debt; and 0.31% in unallocated cash.

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

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

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

Management and Administration of the Fund

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

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

Texas law assigns control of the Fund's land and mineral rights to the three-member SLB, which consists of the elected Commissioner of the GLO, an appointee of the Governor, and an appointee of the Attorney General. Administrative duties related to the land and mineral rights reside with the GLO, which is under the guidance of the Commissioner of the GLO. In 2007, the Legislature established the real estate special fund account of the PSF (the "Real Estate Account") consisting of proceeds and revenue from land, mineral or royalty interest, real estate investment, or other interest, including revenue received from those sources, that is set apart to the PSF under the Texas Constitution and laws, together with the mineral estate in riverbeds, channels, and the tidelands, including islands. The

investment of the Real Estate Account is subject to the sole and exclusive management and control of the SLB and the Land Commissioner, who is also the head of the GLO. The 2007 legislation presented constitutional questions regarding the respective roles of the SBOE and the SLB relating to the disposition of proceeds of real estate transactions to the ASF, among other questions. Amounts in the investment portfolio of the PSF are taken into account by the SBOE for purposes of determining the Distribution Rate. An amendment to the Texas Constitution was approved by State voters on November 8, 2011, which permits the SLB to make transfers directly to the ASF, see “2011 Constitutional Amendment” below.

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

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

Capacity Limits for the Guarantee Program

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

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

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

On July 18, 2016, the IRS issued final regulations enacting the IRS Notice (the “Final IRS Regulations”). The Final IRS Regulations are effective for bonds sold on or after October 17, 2016. The IRS Notice, the Proposed IRS Regulations and the Final IRS Regulations establish a static capacity for the Guarantee Program based upon the cost value of Fund assets on December 16, 2009 multiplied by five. On December 16, 2009, the cost value of the Guarantee Program was \$23,463,730,608 (estimated and unaudited), thereby producing an IRS Limit of approximately \$117.3 billion. The State Capacity Limit is determined on the basis of the cost value of the Fund from time to time multiplied by the capacity multiplier determined annually by the SBOE, but not to exceed a multiplier of five. The capacity of the Guarantee Program will be limited to the lower of the State Capacity Limit or the IRS Limit. On May 21, 2010, the SBOE modified the regulations that govern the School District Bond Guarantee Program (the “SDBGP Rules”), and increased the State Law Capacity to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity

rule, became effective on July 1, 2010. The SDBGP Rules provide that the Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program, but provide that any changes to the multiplier made by the Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds,” below.

At its September 2015 meeting, the SBOE voted to modify the SDBGP Rules and the CDBGP Rules to increase the State Law Capacity from 3 times the cost value multiplier to 3.25 times. At that meeting, the SBOE also approved a new 5% capacity reserve for the Charter District Bond Guarantee Program. The change to the State Law Capacity became effective on February 1, 2016. At its November 2016 meeting, the SBOE again voted to increase the State Law Capacity and, in accordance with applicable requirements for the modification of SDBGP and CDBGP Rules, a second and final vote to approve the increase in the State Law Capacity occurred on February 3, 2017. As a result, the State Law Capacity increased from 3.25 times the cost value multiplier to 3.50 times effective March 1, 2017 and increased again to 3.75 times effective September 1, 2017; however, as described under “2017 Legislative Changes to the Charter District Bond Guarantee Program,” the SBOE took action at its Winter 2018 meeting to roll back a portion of the multiplier increase, which became effective in late March 2018. Based upon the cost basis of the Fund at August 31, 2017, the State Law Capacity increased from \$97,933,360,905 on August 31, 2016 to \$111,568,711,072 on August 31, 2017.

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

Charter District Bond Guarantee Program

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

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

As of February 21, 2018 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 5.5%. As of late June, 2018, there were 185 active open-enrollment charter schools in the State and there were 747 charter school campuses operating under such charters (though as of such date, 38 of such campuses have not begun serving students for various reasons). Section 12.101, Texas Education Code, as amended by the Legislature in 2013, limits the number of charters that the Commissioner may grant to 215 charters as of the end of fiscal year 2014, with the number increasing in each fiscal year thereafter through 2019 to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

The Act provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the

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

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

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

Beginning in July 2015, TEA began limiting new guarantees under the Charter District Bond Guarantee Program to conform to the Act and, subsequently, with CDBGP Rules that require the maintenance of a capacity reserve for the Charter District Bond Guarantee Program. Following the increase in the Program multiplier in February 2016 and the update of the percentage of students enrolled in open-enrollment charter schools to the total State scholastic census in March 2016, some new capacity became available under the Charter District Bond Guarantee Program, but that capacity was quickly exhausted. In accordance with the action of the SBOE on February 3, 2017, additional capacity for the Charter District Bond Guarantee Program became effective in two increments, implemented on March 1, 2017 and on September 1, 2017 (as described under "2017 Legislative Changes to the Charter District Bond Guarantee Program," an item to reverse the September 1, 2017 increase in the Program multiplier was approved by the SBOE at its Winter 2018 meeting). In addition, legislation enacted during the Legislature's 2017 regular session modifies the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increases the amount of the CDBGP Capacity, beginning with State fiscal year 2018, but that provision of the law does not increase overall Program capacity, it merely allocates capacity between the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Program, or a combination of such circumstances.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. The complete text of SB 1480 can be found at <http://www.capitol.state.tx.us/tlodocs/85R/billtext/pdf/SB01480F.pdf#navpanes=0>. SB 1480 modified how the CDBGP Capacity will be established under the Act effective as of September 1, 2017, and made other substantive changes to the Act that affects the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the State Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic

population relative to the total public school scholastic population. As of August 31, 2017, the amount of outstanding bond guarantees represented 66.57% of the State Capacity Limit for the Guarantee Program. SB 1480 amended the CDBGP Capacity calculation so that the State Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby potentially substantially increasing the CDBGP Capacity. However, certain provisions of SB 1480, described below, and other additional factors described herein, could result in less than the maximum amount of the potential increase provided by SB 1480 being implemented by the SBOE or otherwise used by charter districts. Still other factors used in determining the CDBGP Capacity, such as the percentage of the charter district scholastic population to the overall public school scholastic population, could, in and of itself, increase the CDBGP Capacity, as that percentage has grown from 3.53% in September, 2012 to 5.5% in February 2018, representing a cumulative growth during that period of 56%. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Taking into account the enactment of SB 1480 and the increase in the CDBGP Capacity effected thereby, at Winter 2018 meeting the SBOE approved the second of two required readings amending the SDBGP Rules to rollback the multiplier from 3.75 times market value to 3.50 times, and the rollback became effective in late March 2018.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10 percent of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20 percent of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to three percent (3.00%) of the total amount of outstanding guaranteed bonds issued by charter districts. As of August 31, 2017, the Charter District Reserve Fund represented approximately 0.23% of the guaranteed charter district bonds. SB 1480 also authorized the SBOE to manage the Charter District Reserve Fund in the same manner as it manages the PSF. Previously, the Charter District Reserve Fund was held by the Comptroller, but effective April 1 2018, the management of the Reserve Fund was transferred to the PSF division of TEA, where it will be held and invested as a non-commingled fund under the administration of the PSF staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. The amount of such State payments a

charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district. The overall amount of education aid provided by the State for charter schools in any year is also subject to appropriation by the Legislature. The Legislature may base its decisions about appropriations for charter schools on many factors, including the State's economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, under current law, open enrollment charter schools generally do not receive a dedicated funding allocation from the State to assist with the construction and acquisition of new facilities. However, during the 85th Regular Session of the Legislature in 2017, legislation was enacted that, for the first time, provided a limited appropriation in the amount of \$60 million for the 2018-2019 biennium for charter districts having an acceptable performance rating. A charter district that receives funding under this program may use the funds to lease or pay property taxes imposed on an instructional facility; to pay debt service on bonds that financed an instructional facility; or for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility. Charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under "The Charter District Bond Guarantee Program," the Act establishes a Charter District Reserve Fund, which could in the future be a significant reimbursement resource for the PSF. At May 31, 2018, the Charter District Reserve Fund contained \$5,104,222.

Potential Impact of Hurricane Harvey on the PSF

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

The TEA, members of the Legislature and the Governor, among others, have stated that they are developing programs to provide financial assistance to affected school districts and charter districts, particularly with regard to funding assistance for facility repairs and construction and to offset tax base and/or revenue loss to affected districts. The composition of any final programs that may be implemented cannot be predicted, and are likely to be subject to future State legislative and administrative actions, available amounts of federal and private disaster relief for affected schools, and other factors. TEA has initiated programs designed to hold school districts and charter districts harmless for the loss of State funding associated with declines in average daily attendance for fiscal year 2018. In the past, storm damage has caused multiple year impacts to affected schools with respect to both attendance figures and tax base (for school districts). In June 2018 TEA received results of a survey of tax appraisal districts in the area affected by the hurricane with respect to the impact of the hurricane on the tax rolls of affected school districts. In aggregate, the tax rolls of affected districts appear to have increased slightly for fiscal 2018 over 2017, but the increases were at a lower rate than had been anticipated in the State's general appropriation act for the biennium. TEA notes that as of June 2018 the negative effect of the hurricane on the average daily attendance of districts in the affected area appears to have been less than TEA had initially anticipated.

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

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody’s Investors Service Inc., S&P Global Ratings, Inc. 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		
<u>Fiscal Year Ended 8/31</u>	<u>Book Value⁽¹⁾</u>	<u>Market Value⁽¹⁾</u>
2013	\$25,599,296,902	\$33,163,242,374
2014	27,596,692,541	38,445,519,225
2015	29,081,052,900	36,196,265,273
2016	30,128,037,903	37,279,799,335
2017 ⁽²⁾	31,870,581,428	41,438,672,573

⁽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, 2017, 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 \$13.43 million, \$247.64 million, \$2,797.05 million, \$4.71 million, and \$3,399.05 million, respectively, and market values of approximately \$1,870.22 million, \$651.40 million, \$2,788.02 million, \$2.09 million, and \$3,399.05 million, respectively. At May 31, 2018, the PSF had a book value of \$33,178,779,673 and a market value of \$43,191,172,031. May 31, 2018 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2013	\$55,218,889,156
2014	58,364,350,783
2015	63,955,449,047
2016	68,303,328,445
2017	74,266,090,023 ⁽²⁾

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

⁽²⁾ As of August 31, 2017 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$117,195,729,512, of which \$42,929,639,489 represents interest to be paid. As shown in the table above, at August 31, 2017, there were \$74,266,090,023 in principal amount of bonds guaranteed under the Guarantee Program and based on the cost value of the Fund at August 31, 2017 the capacity of the Guarantee Program at that date was \$111,568,711,072. The Program capacity at August 31, 2017 takes into account the increases in the cost value multiplier effective February 1, 2016 and March 1, 2017, which cumulatively increased the multiplier from 3 times to 3.50 times, but does not take into account the September 1, 2017 increase in the multiplier to 3.75 (which was subsequently reduced back to 3.50). Using the IRS Limit, which is the lower of the two federal and State capacity limits of Program capacity, of \$117,318,653,038, at August 31, 2017 98.28% of Program capacity was available to the School District Bond Guarantee Program and 1.72% was available to the Charter District Bond Guarantee Program.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	Number of	Principal Amount	Number of	Principal Amount	Number Of	Principal Amount
<u>At 8/31</u>	<u>Issues</u>	<u>Guaranteed</u>	<u>Issues</u>	<u>Guaranteed</u>	<u>Issues</u>	<u>Guaranteed</u>
2014 ⁽²⁾	2,869	\$58,061,805,783	10	\$302,545,000	2,879	\$58,364,350,783
2015	3,089	63,197,514,047	28	757,935,000	3,117	63,955,449,047
2016	3,244	67,342,303,445	35	961,025,000	3,279	68,303,328,445
2017 ⁽³⁾	3,253	72,884,480,023	40	1,381,610,000	3,293	74,266,090,023

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

⁽²⁾ Fiscal 2014 was the first year of operation of the Charter District Bond Guarantee Program.

⁽³⁾ At May 31, 2018 (based on unaudited data, which is subject to adjustment), there were \$76,899,424,513 of bonds guaranteed under the Guarantee Program, representing 3,272 school district issues, aggregating \$75,492,649,513 in principal amount and 43 charter district issues, aggregating \$1,406,775,000 in principal amount. At May 31, 2018, the capacity allocation of the Charter District Bond Guarantee Program was \$2,090,485,947 (based on the then effective capacity multiplier of 3.50 times and on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2017

The following discussion is derived from the Annual Report for the year ended August 31, 2017, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein. Reference is made to the Annual Report, when filed, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) assets. As of August 31, 2017, the Fund’s land, mineral rights and certain real assets are managed by the three-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2017, the Fund balance was \$41.4 billion, an increase of \$4.2 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. During the year, the SBOE continued implementing the long term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2017, were 11.96%, 8.26% and 5.49%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, three-year, and five-year annualized total returns for the PSF(SLB) real assets, including cash, were 10.35%, 7.19%, and 7.77%, respectively.

The market value of the Fund’s assets is directly impacted by the performance of the various financial markets in which the assets are invested. The most important factors affecting investment performance are the asset allocation decisions made by the SBOE and SLB. The current SBOE long term asset allocation policy allows for diversification of the PSF(SBOE) portfolio into alternative asset classes whose returns are not as positively correlated as traditional asset classes. The implementation of the long term asset allocation will occur over several fiscal years and is expected to provide incremental total return at reduced risk. As of August 31, 2017, the PSF(SBOE) portion of the Fund had diversified into emerging market and large cap international equities, absolute return funds, real estate, private equity, risk parity, real return Treasury Inflation Protected Securities, real return commodities, and emerging market debt.

As of August 31, 2017, the SBOE has approved and the Fund made capital commitments to externally managed real estate investment funds in a total amount of \$3.31 billion and capital commitments to private equity limited partnerships for a total of \$3.83 billion. Unfunded commitments at August 31, 2017, totaled \$1.35 billion in real estate investments and \$1.54 billion in private equity investments.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2017, the remaining commitments totaled approximately \$2.042 billion.

The PSF(SBOE)'s investment in domestic large cap, domestic small/mid cap, international large cap, and emerging market equity securities experienced returns of 16.30%, 12.80%, 19.04%, and 26.28%, respectively, during the fiscal year ended August 31, 2017. The PSF(SBOE)'s investment in domestic fixed income securities produced a return of 1.61% during the fiscal year and absolute return investments yielded a return of 7.32%. The PSF(SBOE) real estate and private equity investments returned 10.52% and 16.35%, respectively. Risk parity assets produced a return of 8.77%, while real return assets yielded 2.38%. Emerging market debt produced a return of 11.84%. Combined, all PSF(SBOE) asset classes produced an investment return of 11.96% for the fiscal year ended August 31, 2017, out-performing the benchmark index of 10.66% by approximately 130 basis points. All PSF(SLB) real assets (including cash) returned 10.35% for the fiscal year ending August 31, 2017.

For fiscal year 2017, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$5.4 billion, an increase of \$2.7 billion from fiscal year 2016 earnings of \$2.7 billion. This increase reflects the performance of the securities markets in which the Fund was invested in fiscal year 2017. In fiscal year 2017, 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, increased 30.6% for the fiscal year ending August 31, 2017. This increase is primarily attributable to an increase in PSF(SLB) operational costs and generally larger quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund.

The Fund supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2016 and 2017, the distribution from the SBOE to the ASF totaled \$1.06 billion and \$1.06 billion, respectively. There was no contribution to the ASF by the SLB in fiscal year 2017.

At the end of the 2017 fiscal year, PSF assets guaranteed \$74.27 billion in bonds issued by 858 local school districts and charter districts, the latter of which entered into the Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 6,980 school district and charter district bond issues totaling \$166.3 billion in principal amount. During the 2017 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program increased by 14, or 0.4%. The dollar amount of guaranteed school and charter bond issues outstanding increased by \$6.0 billion or 8.7%. The guarantee capacity of the Fund increased by \$13.9 billion, or 13.9%, during fiscal year 2017 due to continued growth in the cost basis of the Fund and the increase in the cost multiplier (from 3.25 to 3.50, as discussed above) used to calculate Program capacity.

2011 Constitutional Amendment

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

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

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

The Distribution Rates for the Fund were set at 3.5%, 2.5%, 4.2%, 3.3% and 3.5% for each of two year periods 2008-2009, 2010-2011, 2012-2013, 2014-2015 and 2016-2017, respectively. In September 2017, the SBOE approved a \$2.5 billion distribution to the ASF for State fiscal biennium 2018-2019, to be made in equal monthly increments of \$102.99 million, which represents a 3.7% Distribution Rate for the biennium and a per student distribution of \$248.58, based on 2017 preliminary student average daily attendance of 4,971,656.277.

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

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

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. In accordance with the provisions of the State Investment Ethics Code, the SBOE periodically modifies its code of ethics, which occurred most recently in July 2016. 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. A report of the State Auditor released in March 2016 noted that based on an audit of certain real estate transactions managed by the GLO, during the period from September 2009 to May 2015, the GLO failed to comply with certain of such legal requirements relating to conflict of interest reporting, complying with written procedures and maintenance of documentation and other statutory and procedural requirements. That report, which includes the response of GLO management agreeing to the recommendations of the report, is available at <http://www.sao.texas.gov/reports/main/16-018.pdf>.

Since 2007, TEA has made supplemental appropriation requests to the Legislature for the purpose of funding the implementation of the 2008 Asset Allocation Policy, but those requests have been denied or partly funded. In the 2011 legislative session, the Legislature approved an increase of 31 positions in the full-time equivalent employees for the administration of the Fund, which was funded as part of an \$18 million appropriation for each year of the 2012-13 biennium, in addition to the operational appropriation of \$11 million for each year of the biennium. The TEA has begun increasing the PSF administrative staff in accordance with the 2011 legislative appropriation, and the TEA received an appropriation of \$30.0 million and \$30.2 million for the administration of the PSF for fiscal years 2014 and 2015, respectively, and \$30.2 million for each of the fiscal years 2016 and 2017.

As of August 31, 2017, 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 November 19, 2010, 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 15c-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 Remarketing Memorandum 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.

Material Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (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. (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 Remarketing Memorandum.

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation (“M&O”) taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on May 27, 2000 under the provisions of Section 45.003, as amended, Texas Education Code.

The maximum tax rate per \$100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) \$1.50 and (B) the sum of (1) the rate of \$0.17, and (2) the product of the “State Compression Percentage” multiplied by \$1.50. The State Compression Percentage has been set, and will remain, at 66.67% for the 2018-19 State fiscal biennium. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts.” Furthermore, a school district cannot annually increase its tax rate in excess of the

district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate."

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 "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by district voters at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of taxable assessed valuation before bonds may be issued. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduce the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in the maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds were initially issued for school building purposes pursuant to Chapter 45, Texas Education Code, as new debt and, as a result, were and at such time proved compliance with the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance or projected property values to satisfy this threshold test.

November 2008 Tax Ratification Election

In August 2008, the District adopted a maintenance and operations tax rate of \$1.17 for the 2008-2009 fiscal year. State law requires a district to conduct an election for district voters' approval for the assessment of such a tax rate above \$1.04. The District held this required election on November 4, 2008, in which District voters approved the increased tax rate by a margin of 66% for to 33% against.

RATINGS

At the time of their initial issuance, the Bonds were rated "AAA" by S&P Global Ratings ("S&P"), and "AAA" by Fitch Ratings, Inc. ("Fitch") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds remain guaranteed by the Texas Permanent School Fund and, thus, retain these ratings. The long term unenhanced credit ratings of the District are "A+" by S&P and "AA" by Fitch. In connection with the remarketing of the Bonds that is herein described, S&P and Fitch affirmed their respective ratings on the Bonds.

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

LEGAL MATTERS

At the time of the initial issuance of the Bonds, the District furnished 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 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 approving Original Opinion of Bond Counsel with respect to the Bonds issued in compliance with the provisions of the Order, which Original Opinion is attached to this Remarketing Memorandum as Appendix D.

Though it represents the Financial Advisor and the Remarketing Agents from time to time in connection with matters unrelated to the Bonds, Bond Counsel was engaged by and only represents the District with respect to the remarketing of the Bonds. Bond Counsel did not take part in the preparation of the Remarketing Memorandum and such firm has not assumed any responsibility with respect thereto

or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Remarketing Memorandum to verify that such description conforms to the provision of the Order. The legal fee to be paid to Bond Counsel for services rendered in connection with this remarketing of the Bonds is contingent upon the remarketing of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds was also furnished. In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the Remarketing Agents by their counsel, Kassahn & Ortiz, P.C., San Antonio, Texas.

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

TAX MATTERS

Tax Exemption

Bond Counsel stated in its Original Opinion, dated August 25, 2015, that, as of such date, interest on the Bonds for federal income tax purposes (1) would 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) would not be included in computing the alternative minimum taxable income of the owners thereof. A form of Bond Counsel's Original Opinion is reproduced as Appendix D hereto. The statutes, regulations, rulings, and court decisions on which such opinion was based are subject to change. Bond Counsel's Original Opinion does not cover the effect on excludability of interest of subsequent action under the terms of the Order which may be taken only upon receipt of an opinion of counsel of nationally recognized standing in the field of municipal bond law.

Bond Counsel's Original Opinion assumed continued compliance with covenants contained in the Order related to exclusion from gross income interest on the Bonds for federal income tax purposes and relied upon representations and certifications of the District made in the certificate dated the date of initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds. If the District failed or fails to comply with the covenants in the Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds may become taxable from the date of initial delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

Under the Order, the conversion of the Bonds that is described herein requires that an Opinion of Bond Counsel be delivered to the Paying Agent/Registrar in connection with such conversion (on which the Remarketing Agent will be allowed to rely) (see "THE BONDS – Legality").

In the Original Opinion, Bond Counsel expressed 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, 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.

Bond Counsel has not expressed any opinion as to the treatment for federal income tax purposes of the interest paid by any liquidity provider on the Bonds or, other than the Opinion of Bond Counsel delivered in connection with the conversion of the Bonds into the New Term Rate Period, the effect on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the District shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the District must have received such an opinion.

Bond Counsel's Original Opinion was and is not a guarantee of a result, but represented its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling was sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the Original Opinion and Bond Counsel's Original Opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the

Service 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 District may have different or conflicting interests from the owners of the Bonds. Public awareness of any audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Registered Owners 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 Premium Bonds

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State. 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 “RATINGS” herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

INVESTMENTS

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their

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

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

As a school district that qualifies as an “issuer” under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines “corporate bonds” as senior secured debt obligations issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any

unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (i) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds, or (ii) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below “AA-” (or the equivalent thereof) or, with respect to a corporate bond rated “AA-” (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Remarketing Memorandum, the District has taken no such steps with respect to investment in corporate bonds, nor does it currently intend to do so.

Investment Policies

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said order or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the District; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the District’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the District’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

Please see “Table 13 - Current Investments” in APPENDIX A for the District’s current investments as of May 31, 2018.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

It is the obligation of the Remarketing Agents 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 Remarketing Agents' 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 consent to service of process in any jurisdiction.

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 while it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and the timely notice of specified events to the MSRB via the EMMA system through an internet website accessible at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes quantitative financial information and operating data with respect to the District of the general type included in this Remarketing Memorandum under Tables 1 through 6, and 8 through 13 of APPENDIX A and in APPENDIX C. The District will update and provide this information within six months after the end of each fiscal year.

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

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

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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; and (14) the appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund), or liquidity enhancement. In addition, the District will file 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 file each notice described in this paragraph with the MSRB.

For these purposes, 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.

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 Rule 15c2-12 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 certain 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 repository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC has entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the District receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the District has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted a remarketing agent to purchase or sell Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 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 a remarketing agent from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

The District changed its fiscal year from September 1 through August 31 to July 1 through June 30, effective with respect to the District's fiscal year ending June 30, 2012.

In 2010, Fitch and Moody's Investors Service, Inc. ("Moody's") upgraded the District's underlying unlimited ad valorem tax-supported indebtedness credit rating from "A-" and "A3", respectively, to "AA-" and "A1", respectively due to the recalibration of

municipal credit ratings completed by both Fitch and Moody's in 2010. In addition, multiple rating changes have occurred to the enhanced rating of the District's Unlimited Tax Refunding Bonds, Series 2009 (the "2009 Obligations"), which obligations are insured by Assured Guaranty Corp., including Fitch's withdrawal of its enhanced rating on the 2009 Obligations. As a result, the 2009 Obligations now carry an enhanced rating from S&P of "AA" and underlying ratings from S&P and Fitch of "A+" and "AA-", respectively.

Due to a change in District personnel, the District did not timely file its annual financial and operating data for its fiscal year ending June 30, 2013 (the "2013 Information"). In addition, the District did not, due to administrative oversight and not because of wanton and willful disregard for its continuing disclosure obligations, file its annual financial and operating data for its fiscal years ending in 2010 through 2012 with the MSRB through EMMA, instead timely filing these reports directly with the MAC (which was designated by the State and approved by the SEC staff as a qualified state information depository and the historical source for the District's annual disclosure filings). These filings have since been posted to EMMA, as well as to the MAC.

At the time of the rating changes described above, Rule 15c2-12 and the District's continuing disclosure undertakings made in accordance with Rule 15c2-12 required that notice of rating changes be given only if any such change was material within the meaning of federal securities laws. It is the District's position that such events were not material within the meaning of federal securities laws (particularly in light of the facts that the Fitch and Moody's rating changes were the result of rating scale recalibrations and not credit-related events and that certain of the impacted District debt obligations, both at the time of their initial issuance and at the time of the noticed event, carried an enhanced rating of "AAA" and "Aaa" by Fitch and Moody's, respectively, because of the Permanent School Fund Guarantee). Further, and as it relates specifically to the 2009 Obligations, the ratings on municipal bond insurers were downgraded with frequency during the period of 2008 through 2012. Information about the downgrades of municipal bond insurers was widely and publically reported, particularly throughout the municipal bond industry. Finally, and with respect to the District's failure to file certain of its annual financial and operating data with EMMA, it did timely file with the MAC, which is an industry-recognized source of such information.

The District filed the 2013 Information with the MSRB through EMMA on August 5, 2014. Concurrently therewith, the District filed notice of its failure to timely file the 2013 Information, as well as notice of the events described above.

Effective August 18, 2014, the District has retained Hilltop Securities, Inc., (as successor to FirstSouthwest, a Division of Hilltop Securities, Inc.), to serve as disclosure agent to assist the District in connection with prospective compliance with its continuing disclosure obligations pursuant to Rule 15c2-12. In collaboration with Hilltop Securities, Inc., the District has timely filed its annual financial and operating data since its fiscal year ending June 30, 2014.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District.

At the time of settlement of the remarketing of the Bonds, the District will, in the Remarketing Agreement, certify that no litigation of any nature has been filed or is then pending that affects the payment and security of the Bonds or in any other manner questioning validity of the Bonds or their conversion and remarketing.

FINANCIAL ADVISOR

RBC Capital Markets, LLC (the "Financial Advisor") is employed as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the remarketing and settlement of the Bonds are based on the amount of Bonds actually remarketed and delivered, and therefore such fees are contingent on the remarketing and settlement of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Remarketing Memorandum.

REMARKETING

The Remarketing Agents have agreed, subject to certain conditions, to purchase the remarketed Bonds from the District at the initial yields indicated on page ii hereof, plus no accrued interest, for a fee of \$263,070.47. The Remarketing Agents will be obligated to purchase all of the remarketed Bonds if any remarketed Bonds are purchased. The remarketed Bonds to be offered to the public may be offered and sold to certain dealers (including the Remarketing Agents and other dealers depositing remarketed Bonds into investment trusts) at prices lower than the public offering prices of such remarketed Bonds, and such public offering prices may be changed, from time to time, by the Remarketing Agents.

The Remarketing Agents have provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agents have reviewed the information in this Remarketing Memorandum in accordance with, and as part of, their responsibility to

investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agents do not guarantee the accuracy or completeness of such information.

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

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

FORWARD-LOOKING STATEMENTS

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Remarketing Memorandum would prove to be accurate.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District 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, the Remarketing Order and the Order contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents, the Remarketing Order and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized statutes, documents, the Remarketing Order and the Order 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 Remarketing Memorandum for purposes of, and as that term is defined in, SEC Rule 15c2-12.

MISCELLANEOUS

The Remarketing Order approved the use of this Remarketing Memorandum and any addenda, supplement or amendment thereto in the reoffering of the remarketed Bonds by the Remarketing Agents in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. §240.15c2-12, as amended.

HARLANDALE INDEPENDENT SCHOOL DISTRICT

Juan Mancha

President, Board of Trustees

ATTEST:

Christine Carrillo

Secretary, Board of Trustees

APPENDIX A
FINANCIAL INFORMATION
REGARDING THE HARLANDALE INDEPENDENT SCHOOL DISTRICT

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**APPENDIX A
SELECTED FINANCIAL INFORMATION OF THE DISTRICT**

Table 1 - Valuation, Exemptions and Tax Supported Debt

2017/18 Market Valuation Established by Bexar County Appraisal District		\$ 2,469,644,374
Less Homestead Cap	128,747,864	
Assessed Value		\$ 2,340,896,510
Less Exemptions:		
Totally Exempt Property	74,163,431	
Residential Homestead Exemptions	252,943,993	
Over 65 Homestead Exemptions	75,734,131	
Disabled Veterans (State Mandated)	11,929,728	
Disabled residential Homestead Exemptions	11,006,717	
Other	5,514,310	431,292,310
Net Taxable Value		\$ 1,909,604,200
Less Freeze Value Loss	219,217,175	
Taxable Assessed Value after Loss to Freeze		\$ 1,690,387,025
Debt Payable from Ad Valorem Taxes (as of July 1, 2018)		
Unlimited Tax Bonds	\$ 149,792,404 ⁽¹⁾	
Plus the Bonds	59,775,000 ⁽²⁾	
Debt Payable from Ad Valorem Taxes before Application of State Aid		\$ 209,567,404
Less: Instructional Facilities Allotment (IFA) & Tier III Allotment (EDA)	145,796,043 ⁽³⁾	
Interest and Sinking Fund as of September 30, 2017 (unaudited)	5,197,262	
Total Ad Valorem Tax Debt Offsets	\$ 150,993,305	
Net Debt Payable from Ad Valorem Taxes		\$ 58,574,099
Ratio Tax Supported Debt to Taxable Assessed Valuation		12.40%
Ratio Tax Supported Debt to Taxable Assessed Valuation After State Assistance		3.47%
Estimated Population - 2018	66,814	
Per Capita Taxable Assessed Valuation:	\$ 25,300	
Per Capita Debt Payable from Ad Valorem Taxes:	\$ 877	

⁽¹⁾ Net of the Bonds.

⁽²⁾ Represents the Bonds, as remarketed.

⁽³⁾ The District currently receives approximately 69.57% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Tier III (Existing Debt Allotment) debt payment assistance as provided by Chapter 46, Texas Education Code, as amended, (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). 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.

Table 2 – Taxable Assessed Valuation by Category

Category	FYE 2018		FYE 2017		FYE 2016	
	Amount (\$)	% of Total	Amount (\$)	% of Total	Amount (\$)	% of Total
Real, Residential, Single-Family	\$ 1,523,765,707	61.70%	\$ 1,143,496,769	60.61%	\$ 1,049,693,128	57.59%
Real, Residential, Multi-Family	117,084,267	4.74%	88,177,644	4.67%	90,970,020	4.99%
Real, Vacant Lots/Tracts	40,474,423	1.64%	22,753,756	1.21%	24,859,242	1.36%
Real, Acreage (Land Only)	3,728,972	0.15%	2,514,916	0.13%	3,663,457	0.20%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%	-	0.00%
Real, Commercial	556,833,380	22.55%	422,675,089	22.40%	448,910,281	24.63%
Real, Industrial	4,151,630	0.17%	2,921,110	0.15%	2,958,750	0.16%
Real and Tangible Personal, Utilities	16,233,556	0.66%	13,070,917	0.69%	13,390,896	0.73%
Tangible Personal, Commercial	106,632,169	4.32%	98,970,766	5.25%	100,006,413	5.49%
Tangible Personal, Industrial	4,035,589	0.16%	2,727,632	0.14%	2,754,390	0.15%
Tangible Personal, Other	-	0.00%	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	3,169,940	0.13%	3,102,320	0.16%	2,886,130	0.16%
Real Property, Inventory	4,385,940	0.18%	721,419	0.04%	1,527,782	0.08%
Special Inventory Tax	9,478,660	0.38%	9,510,800	0.50%	9,184,700	0.50%
Totally Exempt Property	79,670,141	3.23%	76,040,383	4.03%	71,926,627	3.95%
Total Appraised Value Before Exemptions	\$ 2,469,644,374	100.00%	\$ 1,886,683,521	100.00%	\$ 1,822,731,816	100.00%
Less: Total Exemptions/Reductions	(779,257,349)		(557,617,587)		(560,278,098)	
Taxable Assessed Value	<u>\$ 1,690,387,025</u>		<u>\$ 1,329,065,934</u>		<u>\$ 1,262,453,718</u>	

Category	FYE 2015		FYE 2014	
	Amount (\$)	% of Total	Amount (\$)	% of Total
Real, Residential, Single-Family	\$ 905,541,744	56.90%	\$ 905,896,026	56.82%
Real, Residential, Multi-Family	75,046,388	4.72%	75,117,668	4.71%
Real, Vacant Lots/Tracts	19,919,397	1.25%	19,874,173	1.25%
Real, Acreage (Land Only)	3,241,980	0.20%	3,241,980	0.20%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial	386,254,678	24.27%	388,468,785	24.37%
Real, Industrial	1,509,140	0.09%	1,580,460	0.10%
Real and Tangible Personal, Utilities	13,246,672	0.83%	13,246,672	0.83%
Tangible Personal, Commercial	97,772,236	6.14%	97,921,588	6.14%
Tangible Personal, Industrial	2,580,350	0.16%	2,595,930	0.16%
Tangible Personal, Other	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	2,670,640	0.17%	2,673,520	0.17%
Real Property, Inventory	1,910,646	0.12%	1,910,646	0.12%
Special Inventory Tax	9,242,430	0.58%	9,242,430	0.58%
Totally Exempt Property	72,575,087	4.56%	72,584,239	4.55%
Total Appraised Value Before Exemptions	\$ 1,591,511,388	100.00%	\$ 1,594,354,117	100.00%
Less: Total Exemptions/Reductions	(460,162,075)		(456,715,427)	
Taxable Assessed Value	<u>\$ 1,131,349,313</u>		<u>\$ 1,137,638,690</u>	

Note: Valuations shown are certified taxable assessed values reported by the Bexar Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Bexar Appraisal District updates records.

Table 3 - Valuation and Tax Supported Debt History

Period Ended 08/31 ⁽¹⁾	Estimated Population ⁽²⁾	Taxable Assessed Valuation ⁽³⁾	Taxable Assessed Valuation Per Capita	Unlimited Tax Debt Outstanding	Percent of State Financial Assistance which includes IFA & EDA	Net Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported		Ratio of Tax Supported		Net of IFA and EDA	
							Debt to Taxable Assessed Valuation	Debt to Tax Supported Debt Per Capita	Debt to Taxable Assessed Valuation	Debt to Tax Supported Debt Per Capita	Debt to Tax Supported Debt Per Capita	Debt to Tax Supported Debt Per Capita
2013	66,814	\$1,144,951,530	\$17,918	\$195,238,255	75.70%	\$47,442,896	17.05%	\$2,922	4.14%	\$710	4.14%	\$710
2014	66,814	1,137,638,690	17,027	187,745,458	76.52%	44,082,634	16.50%	2,810	3.87%	660	3.87%	660
2015	66,814	1,131,349,313	16,933	236,572,066	76.56%	55,452,492	20.91%	3,541	4.90%	830	4.90%	830
2016	66,814	1,262,453,718	18,895	227,976,696	76.88%	52,708,212	18.06%	3,412	4.18%	789	4.18%	789
2017	66,814	1,329,065,934	19,892	213,192,404	74.61%	54,129,551	16.04%	3,191	4.07%	810	4.07%	810
2018 ⁽⁴⁾	66,814	1,690,387,025	25,300	204,939,187	69.57%	62,362,995	12.12%	3,067	3.69%	933	3.69%	933

⁽¹⁾ Effective June 30, 2012, the District's Fiscal Year now ends on June 30; to reconcile with the State's fiscal year-end (and upon which State debt service assistance is paid), the numbers shown reflect the period ending August 31 to account for August 15 debt service payments.

⁽²⁾ Source: The District's comprehensive Annual Financial Reports.

⁽³⁾ As reported by the Bexar Appraisal District on District's annual Certified Totals; subject to change for fiscal year end 2018.

⁽⁴⁾ Includes the Bonds, as remarketed.

Table 4 - Tax Rate, Levy and Collection History

Fiscal Year Ended	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2013	\$1.53850	\$1.17000	\$0.36850	\$17,606,113	91.54%	97.00%
2014	1.52880	1.17000	0.35880	17,912,059	91.61%	93.07%
2015	1.52880	1.17000	0.35880	18,708,541	91.90%	98.78%
2016	1.52880	1.17000	0.35880	19,300,392	92.36%	98.81%
2017	1.52880	1.17000	0.35880	20,318,760	91.76%	97.55%
2018	1.52880	1.17000	0.35880	25,842,637	(in process of collection)	

Source: The District's comprehensive Annual Financial Reports.

Table 5 - Ten Largest Taxpayers

Name of Taxpayer	Type of Property	2017/18 Taxable Assessed Valuation	% of Total Assessed Valuation
Zachry Properties LLC	Commercial	\$ 37,549,510	2.22%
HEB Grocery Company LP	Grocery Store	31,612,010	1.87%
Wal Mart Stores Inc #2404	Retail	26,264,730	1.55%
Southwest Junction LTD	Railroad	13,873,760	0.82%
SA South Investments Partners LLC	Apartment Complex	12,814,320	0.76%
Shoppers City LLC	Shopping Center	11,500,000	0.68%
B & B South Park Mall LLC	Shopping Center	11,041,479	0.65%
1215 Farragut LTD	Branch Bank	11,035,000	0.65%
RBV 3 Property Management LLC	Real Estate	10,400,000	0.62%
Terravista Corp	Commercial	8,477,000	0.50%
TOTAL		\$ 174,567,809	10.33%

Table 6 - Tax Adequacy

Estimated 2017/18 Principal and Interest Requirements ⁽¹⁾	\$ 17,555,125
Less: State Aid ⁽²⁾	12,213,100
Less: Interest & Sinking Fund Withdrawal	-
Net Debt Service Requirements	5,342,025
\$0.3588 Tax Rate at 98.00% Collection Produces	\$ 5,943,806

⁽¹⁾ Includes the Bonds, as remarketed.

⁽²⁾ A projection based upon receiving State of Texas payments from the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) program which is subject to annual appropriation. Approximately 69.57% of the District's Bond Series are supported with funds received under the State's IFA and EDA program.

Table 7 - Estimated Overlapping Debt

Taxing Jurisdiction	Total Tax Debt	As of	Estimated Applicable Overlap	District's Overlapping Tax Debt
Harlandale ISD (General Obligation Debt)	\$ 209,567,404	07/01/2018 ⁽¹⁾	100.00%	\$ 209,567,404
Alamo CCD (General Obligation Debt)	488,500,000	07/01/2018	1.29%	6,301,650
Bexar Co (General Obligation Debt)	1,683,565,000	07/01/2018	1.29%	21,717,989
Bexar Co Hospital District (General Obligation Debt)	891,565,000	07/01/2018	1.29%	11,501,189
San Antonio, City of (General Obligation Debt)	1,607,955,000	07/01/2018	1.77%	28,460,804
Total Direct and Overlapping Tax Debt				\$ 277,549,035
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation				16.42%
Total Direct Net Debt and Overlapping Tax Debt				\$ 126,555,730 ⁽²⁾
Ratio of Direct Net Debt and Overlapping Tax Debt to Taxable Assessed Valuation				7.49%
Per Capita Overlapping Tax Debt				\$ 4,154
Per Capita Overlapping Tax Debt (Net of State Aid for the District)				\$ 1,894

Source: Municipal Advisory Council of Texas & Harlandale ISD

⁽¹⁾ Includes the Bonds, as remarketed.

⁽²⁾ Net of estimated State Aid. The District currently receives approximately 69.57% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Tier III (Existing Debt Allotment) debt payment assistance as provided by Chapter 46, Texas Education Code, as amended, (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). 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.

Table 8 - Debt Service Requirements

Fiscal Year Ending 08/31 ⁽¹⁾	Outstanding Debt Service Requirements ⁽²⁾	The Bonds			Total Outstanding Debt Service Requirements
		Principal ⁽³⁾	Interest ⁽⁴⁾	Total	
2018	\$ 17,555,125				\$ 17,555,125
2019	15,162,438	\$ 2,850,000	\$ 1,945,750	\$ 4,795,750	19,958,188
2020	14,200,713	2,375,000	1,803,250	4,178,250	18,378,963
2021	15,218,863	1,000,000	1,684,500	2,684,500	17,903,363
2022	13,005,788	1,400,000	4,242,000	5,642,000	18,647,788
2023	15,317,313	330,000	4,172,000	4,502,000	19,819,313
2024	12,247,563	1,620,000	4,145,600	5,765,600	18,013,163
2025	12,261,300	1,620,000	4,016,000	5,636,000	17,897,300
2026	12,345,350	1,680,000	3,886,400	5,566,400	17,911,750
2027	11,280,300	1,740,000	3,752,000	5,492,000	16,772,300
2028	10,749,200	1,810,000	3,612,800	5,422,800	16,172,000
2029	11,805,775	1,875,000	3,468,000	5,343,000	17,148,775
2030	11,793,950	1,945,000	3,318,000	5,263,000	17,056,950
2031	9,528,625	2,020,000	3,162,400	5,182,400	14,711,025
2032	8,853,425	2,095,000	3,000,800	5,095,800	13,949,225
2033	8,935,625	2,175,000	2,833,200	5,008,200	13,943,825
2034	8,798,200	2,255,000	2,659,200	4,914,200	13,712,400
2035	5,902,300	2,340,000	2,478,800	4,818,800	10,721,100
2036	3,079,200	2,425,000	2,291,600	4,716,600	7,795,800
2037	3,079,600	2,515,000	2,097,600	4,612,600	7,692,200
2038	3,080,800	2,605,000	1,896,400	4,501,400	7,582,200
2039	3,077,600	2,705,000	1,688,000	4,393,000	7,470,600
2040	520,000	2,800,000	1,471,600	4,271,600	4,791,600
2041	-	2,905,000	1,247,600	4,152,600	4,152,600
2042	-	3,005,000	1,015,200	4,020,200	4,020,200
2043	-	3,115,000	774,800	3,889,800	3,889,800
2044	-	3,225,000	525,600	3,750,600	3,750,600
2045	-	3,345,000	267,600	3,612,600	3,612,600
	\$ 227,799,050	\$ 59,775,000	\$ 67,456,700	\$ 127,231,700	\$ 355,030,750

⁽¹⁾ Effective June 30, 2012, the District's Fiscal Year now ends on June 30; to reconcile with the State's fiscal year-end (and upon which State debt service assistance is paid), the numbers shown reflect the period ending August 31 to account for August 15 debt service payments.

⁽²⁾ Net of the remarketed Bonds.

⁽³⁾ Principal payments in years 2023 through 2045 represent sinking fund payments on a term Bond maturing on August 15, 2045.

⁽⁴⁾ Interest calculated at the New Term Rate through August 14, 2021, and for purposes of illustration, at the Stepped Rate thereafter through stated maturity.

Table 9 - Interest and Sinking Fund Budget Projection

Estimated Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2018 ⁽¹⁾	\$	17,555,125
<u>Resources Available</u>		
Interest and Sinking Fund Balance, June 30, 2017		16,608,025
Projected \$0.3588 Interest and Sinking Fund Tax Levy @98% Collection		5,943,806
Projected State Aid ⁽²⁾		12,215,214
		34,767,045
Estimated Interest and Sinking Fund Projected Balance, June 30, 2018	\$	17,211,920

⁽¹⁾ Includes the Bonds, as remarketed.

⁽²⁾ Net of estimated State Aid. The District currently receives approximately 69.57% in State Aid which are supported by the Texas Education Agency's Instructional Facilities Allotment program as provided by Chapter 46, Texas Education Code, as amended, and Tier III (Existing Debt Allotment) debt payment assistance as provided by Chapter 46, Texas Education Code, as amended, (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). 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.

Table 10 - Authorized but Unissued Unlimited Tax Bonds

The District has no voter-authorized but unissued ad valorem tax supported debt.

In addition to voter authorized unlimited ad valorem tax-supported debt, the District may also enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes. See "Table 11 - Other Outstanding Obligations" below for a description of this other type of District indebtedness, if any.

Table 11 - Other Outstanding Obligations

On November 17, 2014, the District entered into a seventy-two month, noncancelable lease agreement for new copier fleet equipment and print shop services which is scheduled to end on December 2020. This lease has been classified as an operating lease and the total lease expense during the current year was \$560,764. The future minimum lease payments are as follows:

Fiscal Year	Requirement
Ending 06/30	
2018	\$ 560,764
2019	560,764
2020	560,764
2021	280,382
Total	\$ 1,962,674

Source: The District Certified Annual Financial Report for the Fiscal Year Ended June 30, 2017.

Table 12 – Comparative Statement of Revenues, Expenditures, and Changes to Fund Balance

REVENUES:	Fiscal Year Ended				
	2017	2016	2015	2014	2013
Local and Intermediate Sources					
Real and Personal Property Taxes	\$ 16,911,954	\$ 15,247,055	\$ 14,474,897	\$ 13,851,009	\$ 13,615,920
Tuition & Fees From Patrons	221,417	174,354	204,578	219,795	180,008
Co-Curricular Activities	377,233	279,730	886,745	851,144	876,798
Other Revenue from Local Sources	1,442,298	1,376,628	569,918	1,082,011	994,200
Total	18,952,902	17,077,767	16,136,138	16,003,959	15,666,926
State Sources					
Per Capita & Foundation	103,391,890	108,119,290	103,408,996	101,394,914	90,825,602
Teacher Retirement/TRS On-Behalf Payments	6,193,336	5,919,440	5,671,608	5,376,068	4,646,550
Other State Programs	431,169	150,534	157,457	143,249	92,622
Total	110,016,395	114,189,264	109,238,061	106,914,231	95,564,774
Federal Sources					
Federally Distributed	14,037,326	14,478,413	13,117,634	12,129,208	12,873,091
Total	14,037,326	14,478,413	13,117,634	12,129,208	12,873,091
Total Revenues	\$ 143,006,623	\$ 145,745,444	\$ 138,491,833	\$ 135,047,398	\$ 124,104,791
EXPENDITURES:					
Instruction	\$ 76,853,959	\$ 79,526,975	\$ 79,373,362	\$ 68,983,301	\$ 64,248,854
Instructional Leadership	1,462,750	1,478,633	1,276,999	1,111,810	898,118
Instructional Resources & Media Services	2,237,195	2,204,432	2,008,741	1,954,020	1,823,399
School Leadership	9,042,607	8,701,764	8,883,051	8,508,895	8,187,179
Curriculum & Instructional Staff Development	3,435,199	3,423,683	3,047,919	2,559,547	1,876,084
Guidance, Counseling & Evaluation Services	4,926,588	4,733,470	4,599,402	4,181,816	4,132,679
Attendance & Social Work Services	1,464,301	1,447,484	1,321,820	1,207,621	1,163,750
Health Services	1,828,462	1,844,972	1,773,926	1,691,519	1,495,878
Student (Pupil) Transportation Regular	3,306,707	3,424,350	3,353,579	3,016,544	3,000,640
Co curricular/Extracurricular Activities	2,394,038	2,209,186	2,011,041	2,149,664	2,061,382
Food Services	11,563,274	11,979,516	12,174,876	11,592,613	10,546,916
General Administration	3,915,794	3,896,909	3,768,603	3,670,316	3,420,265
Debt Services	-	-	-	-	-
Facilities Acquisition & Construction	-	-	-	41,196	-
Plant Maintenance & Operations	16,497,785	16,569,689	17,271,125	14,952,738	14,273,131
Security and Monitoring	1,922,971	1,893,154	1,741,212	1,606,724	1,544,589
Data Processing Services	3,535,740	3,047,264	1,847,367	2,097,272	2,090,483
Community Services	\	67,193	65,072	114,330	64,811
Payments to Fiscal Agents	87,565	128,555	180,677	121,762	115,895
Juvenile Justice Alternative Education Program	62,219	99,714	114,929	79,880	130,008
Other Intergovernmental Charges	98,630	94,581	97,470	95,082	95,105
Total Expenditures	\$ 144,635,784	\$ 146,771,524	\$ 144,911,171	\$ 129,736,650	\$ 121,169,166
Other Resources and (Uses)	-	38,732	-	-	-
Excess (Deficiency) of Revenues over Expenditures	(1,629,161)	(1,026,080)	(6,419,338)	5,310,748	2,935,625
Beginning Fund Balances on July 1	58,023,965	59,011,313	65,430,651	60,119,903	57,184,278 ⁽¹⁾
Ending Fund Balance on June 30	\$ 56,394,804	\$ 58,023,965	\$ 59,011,313	\$ 65,430,651	\$ 60,119,903

⁽¹⁾ Restatement of General Fund balance due to a reclassification of a Student Activity Fund to a Special Revenue fund and a recognition adjustment to 60-day property tax collections.

Note: The District's unaudited General Fund Balance for the Fiscal Year Ended June 30, 2018 is \$45,330,025. This decline is due to lack of additional state funding and drop in enrollment.

Table 13 – Current Investments

As of May 31, 2018 (unaudited) the District's funds were invested as follows:

Type of Investment	% of Portfolio	Market Value
Cash on Hand	0.91%	\$ 997,814
Agency Securities	29.48%	32,280,138
Certificates of Deposit	5.59%	6,124,747
Investment Pool	16.35%	17,909,159
Money Market Account	9.53%	10,439,484
Commercial Paper	24.50%	26,825,734
Municipal Bonds	13.63%	14,929,111
	100.00%	\$ 109,506,187

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.

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APPENDIX B

**GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY**

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GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

The information contained in this Appendix relating to the District is intended solely to provide certain general information concerning the District.

THE DISTRICT

The District, originally chartered by the State of Texas (the “State”) in 1924, now encompasses 13.70 square miles of densely populated, urban residential and commercial property, including shopping centers and established residential properties. The District is located three miles south of downtown San Antonio, in central Bexar County. The District had an estimated population of 66,814 and has a current enrollment of 14,857.

Full Time Equivalents (FTE) Employees Last Five Fiscal Years

	<u>2017/18</u>	<u>2016/17</u>	<u>2015/16</u>	<u>2014/15</u>	<u>2013/14</u>
Professional Staff					
Teachers	1,021.0	943.3	1,028.0	1,020.0	1,029.0
Professional Support	215.0	213.1	237.8	235.8	275.0
Campus Administration	65.0	65.8	67.5	66.5	67.0
Central Administration	<u>28.0</u>	<u>28.0</u>	<u>26.0</u>	<u>25.0</u>	<u>24.0</u>
Total Professional Staff	1,329.0	1,250.2	1,359.3	1,347.3	1,395.0
Educational Aides	<u>214.0</u>	181.0	177.2	176.2	176.0
Auxiliary Staff	<u>645</u>	<u>786.4</u>	<u>677.5</u>	<u>668.5</u>	<u>593.0</u>
Total Staff	<u>2,188</u>	<u>2,217.6</u>	<u>2,214.0</u>	<u>2,192.3</u>	<u>2,164.0</u>
Pupil to Staff Ratio	<u>6.57</u>	6.70	6.81	6.97	7.08
Student Enrollment	14,384	14,857	15,086	15,289	15,324

Source: Information supplied by the District.

Teacher Base Salaries Last Ten Years

<u>Fiscal Year</u>	<u>Minimum Salary (\$)</u>	<u>Maximum Salary (\$)</u>	<u>State Minimum Salary (\$)</u>	<u>State Maximum Salary (\$)</u>
2005	35,000	54,298	24,240	40,800
2006	35,000	54,708	24,820	41,770
2007	41,600	61,308	27,320	44,720
2008	42,100	61,708	27,320	44,270
2009	42,700	62,446	27,320	44,270
2010	44,350	64,246	27,320	44,270
2011	45,000	64,314	27,320	44,270
2012	45,000	65,004	27,320	44,270
2013	46,000	66,250	27,320	44,270
2014	47,000	69,900	27,320	44,270
2015	48,500	72,696	27,540	44,620
2016	50,000	74,513	28,080	45,510
2017	50,750	63,492	28,080	45,510
2018	51,550	63,892	28,080	45,510

Source: State Minimum Salary Information Obtained from TEA website; District Salary Information obtained from the District’s Department of Human Resources.

Historical enrollment for the District is as follows:

<u>School Year</u>	<u>Student Enrollment</u>	<u>Average Student Attendance</u>	<u>Attendance Percentage(%)</u>	<u>Expense Per Student(\$)</u>
2002/03	14,434	13,183	91.3	8,747
2003/04	14,151	13,004	91.9	8,699
2004/05	14,136	13,083	92.6	8,860
2005/06	14,388	13,135	91.3	9,125
2006/07	14,100	12,976	92.0	9,552
2007/08	14,101	12,954	91.9	9,901
2008/09	14,351	13,117	91.4	9,608
2009/10	14,454	13,176	91.2	9,984
2010/11	14,846	13,442	90.5	9,922
2011/12	14,913	13,549	90.9	8,793
2012/13	15,154	13,723	90.6	8,830
2013/14	15,324	13,921	90.8	9,319
2014/15	15,289	13,782	90.1	10,514
2015/16	15,086	13,589	90.1	10,801
2016/17	14,857	13,367	90.0	10,820
2017/18	14,384	12,957	90.1	N/A

Source: District Statement of Activities (Exhibit B-1).

Enrollment by grade (as of Fall of 2016/2017 school year):

<u>Grade</u>	<u>Fall 2016/17</u>	<u>Fall 2017/18</u>	<u>% Increase or Decrease</u>
Early Education/Pre-K	1,128	1084	(3.90%)
Kindergarten	949	881	(7.17%)
1st Grade	1,118	991	(11.36%)
2nd Grade	1,110	1055	(4.95%)
3rd Grade	1,197	1075	(10.19%)
4th Grade	1,123	1127	0.36%
5th Grade	1,086	1081	(0.46%)
6th Grade	1,040	1034	(0.58%)
7th Grade	1,056	1037	(1.80%)
8th Grade	1,023	1044	2.05%
9th Grade	1,171	1156	(1.28%)
10th Grade	1,067	1066	(0.09%)
11th Grade	933	906	(2.89%)
12th Grade	856	847	(1.05%)
Total Enrollment	14,857	14,384	(3.18%)

Source: Information supplied by the District.

BEXAR COUNTY AND THE CITY OF SAN ANTONIO

Neither Bexar County, Texas (the “County”) nor the City of San Antonio, Texas (the “City”) has any obligation with respect to the Bonds. Information concerning the County and the City is provided for general information concerning the area of the District. The County was organized in 1836 as one of the original counties of the Republic of Texas and is the fourth largest of the 254 counties in the State. According to the U.S. Census of Population, the 2010 population of the County was 1,714,773. The County is located in south central Texas on the edge of the Balcones Escarpment and coastal plains, with the City of San Antonio as the county seat. The County has an area of approximately 1,248 square miles, and contains 22 other incorporated cities within its boundaries.

The City covers approximately 467 square miles. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837, and is the county seat of the County. According to the U.S. Census of Population, the 2010 population of the City was 1,326,539. The Bureau of Census ranks the City as the second largest city in Texas and the seventh largest in the United States.

The County and the City have a diversified economic base which is composed of agribusiness, manufacturing, construction, tourism, and the South Texas Medical Center complex. The County is the site of the largest concentration of military installations in the United States. The City's proximity to Mexico provides favorable conditions for international business relations with Mexico in the areas of agriculture, tourism, manufacturing of apparel, food products, aircraft, electronics, pharmaceuticals, iron and steel products and oil well equipment. The City is also a major insurance center in the southwest, serving as the headquarters for several insurance companies, including United States Automobile Association, the nation's fifth largest private automobile insurer and the tenth largest homeowners insurer.

The military presence in the County is a principal component of the area's economy. The major installations located in the County include Fort Sam Houston, the U.S. Army Health Services Command, the U.S. Army Southern Command, Randolph Air Force Base, and the Air Force Military Training Center at Lackland Air Force Base.

The County continues to play a significant role in expanding medical service, research and development. The health care industry has an annual impact on the local economy of nearly \$10 billion. There are over 101,000 medical industry employees as well as approximately 7,600 military health system employees. The South Texas Medical Center houses 11 major hospitals and almost 80 other related facilities. Southwest Research Institute is one of the world's foremost independent nonprofit applied research and development organizations serving industry and government around the world in the engineering sciences and physical sciences.

LABOR FORCE STATISTICS FOR BEXAR COUNTY

	<u>2018^(A)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Labor Force	940,604	924,590	903,856	874,901	866,343
Employed	910,618	892,277	870,020	841,401	825,849
Unemployed	29,986	32,313	33,836	33,500	40,494
Percent of Labor Force Unemployed	3.2%	3.5%	3.7%	3.8%	4.7%

^(A) As of May 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

Comparative Unemployment Rates

	<u>2018^(A)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Bexar County	3.2%	3.5%	3.7%	3.8%	4.7%
State of Texas	3.7%	4.3%	4.6%	4.5%	5.1%
United States of America	3.6%	4.4%	4.9%	5.3%	6.2%

^(A) As of May 2018.

Source: Labor Market Information Department, Texas Workforce Commission.

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APPENDIX C

**AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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HARLANDALE ISD

SAN ANTONIO, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



FOR THE FISCAL YEAR ENDING JUNE 30, 2017

THE MISSION

Harlandale: A family working together to provide a high quality education where all students graduate to become productive and successful citizens for the 21st century.

HARLANDALE INDEPENDENT SCHOOL DISTRICT
102 Genevieve
San Antonio, Texas 78214-2997

COMPREHENSIVE
ANNUAL FINANCIAL REPORT

Year Ended June 30, 2017



Prepared by: Ricardo J. Hernandez, CPA
Assistant Superintendent for Business

HARLANDALE INDEPENDENT SCHOOL DISTRICT
San Antonio, Texas

Comprehensive Annual Financial Report
Year Ended June 30, 2017

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San Antonio, Texas

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**HARLANDALE INDEPENDENT SCHOOL DISTRICT
San Antonio, Texas**

**Comprehensive Annual Financial Report
Year Ended June 30, 2017**

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San Antonio, Texas

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Introductory Section



HARLANDALE INDEPENDENT SCHOOL DISTRICT

102 Genevieve, San Antonio, Texas 78214-2997

November 13, 2017

Mr. Carlos Quezada
and Members of the Board of Trustees
Harlandale Independent School District
102 Genevieve
San Antonio, Texas 78214-2997

Members of the Board:

The Texas Education Code requires that all school districts file a complete set of financial statements with the Texas Education Agency (“TEA”) within 150 days of the close of each fiscal year. The financial statements must be presented in conformity with generally accepted accounting principles (“GAAP”) and audited by a firm of licensed certified public accountants in accordance with generally accepted auditing standards. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report of the Harlandale Independent School District (District) for the year ended June 30, 2017.

This report consists of management’s representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the District’s assets from loss, theft, or misuse and to compile sufficient reliable information for the presentation of the District’s financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the District’s comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Garza/Gonzalez & Associates, a firm of licensed certified public accountants, have audited the financial statements of the District. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the year ended June 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District’s financial statements for the year ended June 30, 2017 are fairly presented in conformity with GAAP. The independent auditor’s report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the District was part of a broader, federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government’s internal controls and compliance with legal requirements, with emphasis on internal controls and legal requirements involving the administration of federal awards. Information related to this single audit, including a schedule of expenditures of federal awards, the independent auditors’ report on

the internal controls and compliance with applicable laws and regulation, and a schedule of findings and questioned costs are included in the Federal Awards Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management’s Discussion and Analysis (“MD&A”). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District’s MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE DISTRICT

The Harlandale Independent School District (District) was chartered by the State of Texas in 1924. The District encompasses 13.7 square miles and serves over 15,000 students. There are 13 elementary schools, 4 middle schools, 3 high schools, 2 alternative centers, and 1 center for multi-handicapped students.

The District is governed by a seven-member Board of Trustees (Board) composed of District residents, with each trustee representing one of the seven single-member districts and elected by voters of that district. The Board is responsible for managing and governing the schools of the District, including adopting goals and objectives for the District, reviewing and acting on policies, adopting an annual budget, levying and collecting District taxes, approving, as necessary, school personnel as recommended by the superintendent, setting salary schedules, adopting District policies and setting directions for curriculum, and reporting to the public on the District’s progress. The District’s Superintendent of Schools and staff assist the Board with financial and administrative matters and oversee the day-to-day operations of the District.

The District provides a full range of educational services appropriate to grade levels Pre-Kindergarten through twelve. These include regular and enriched academic education, special education for students with disabilities, occupational education, bilingual instruction for those with limited English proficiency and specialized instruction for disadvantaged students. These basic programs are supplemented by additional offerings in the fine arts and athletics. In addition, the District provides for community and adult education by offering a wide variety of academic and occupational courses.

The annual budget serves as the foundation for the District’s financial planning and control. The District’s fiscal year begins July 1st and ends June 30th. The budget is initially prepared under the direction of the Superintendent, and the Board reviews the budget during workshops conducted from January through June. The final budget is required by the State law to be adopted by June 30th. The District maintains budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board.

Activities of the general fund, the debt service fund, and the child nutrition fund (which is included in the general fund) are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by major functional category.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, these comparisons are presented in Exhibit F-1, as required supplementary information. The budget-to-actual comparisons for the general fund subfund – child nutrition program and debt service fund are presented in Exhibits F-4 and F-6, respectively, as other supplementary information.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the District operates.

Local Economy

The City has a diversified economic base composed of mainly manufacturing, medicine, tourism, the military, construction, and agribusiness. Toyota of USA's automotive plant is located south of the City and in close proximity to the District. However, it has yet to have a significant impact on student growth in the District. The medical center is located northwest of the City. The medical center locates the University of Texas at San Antonio medical school as well as other major medical hospitals. Popular tourist attractions are the Alamo, the River Walk, Sea World of Texas, and the Six Flags Fiesta Texas theme park. There are currently four major military installations located in and around the City. The installations provide for training, medical, air base, and general military operations. The agribusiness is aided by the North American Free Trade Agreement which provides for favorable conditions in international business relations.

Ten institutions of higher education are located in the Bexar County area including University of Incarnate Word, St. Mary's University at San Antonio, Trinity University, University of Texas at San Antonio, Texas A & M University at San Antonio, and Alamo Community College District. Texas A & M University (TAMU) is located to the south area of the city and in close proximity to the District. The District and TAMU have ongoing collaboration that benefits both the student and staff growth.

The Reporting Entity

The District is an independent reporting entity clearly within the criteria established in Section 2100 of the Governmental Accounting Standards Board codification.

Internal and Budgetary Controls

The development and evaluation of the District's accounting system considers the adequacy of the internal control structure. The internal control structure is designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management.

We believe that the District's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period by employees in the normal course of performing their assigned functions.

Budgetary controls are established by regulations of the Texas Education Agency and by District policy for all administrators with line item responsibility. TEA regulations set the level of budgetary control at the major functional expenditure level. Administrators have the responsibility to develop and manage their own program budgets once approved. Revisions within the categories are accepted upon request, but additions in amount or revisions between functions require recommendation of the Assistant Superintendent for Business and Superintendent and approval by the School Board.

General Educational Functions

Principally, local taxes and state entitlement support general educational activities. Direct federal aid is nominal in the General Fund; however, the Special Revenue Fund receives most of its funding from Federal grants, which are distributed through the Texas Education Agency. General educational activities are accounted for in the General and Special Revenue Funds. State and federal grants or entitlements primarily support the Special Revenue Fund. They include support for the economically and academically disadvantaged, federal support for special and vocational education, and a variety of other projects described in detail in the Combining Statements.

Relevant Financial Policies

The 2016-2017 School Year was the second year of the State's budget for the biennium. As a result of the 84th legislative session the State increased public education funding for the 2015–2017 biennium. Preliminary information regarding House Bill 1 (HB 1), are that the basic allotment will increase to \$5,140 from \$5,040 and the “Golden” pennies from the Austin Yield will increase to \$74.28 in 2015-16 and \$77.53 in 2016-17 from \$61.86. Also critical to the District's estimates of State revenue is the growth in property value. The 2015 taxable property values increased by 15%. However, as part of the 84th legislature, the State provided through a referendum for voter approval to grant an additional \$10,000 taxable property exemption towards the 2015 property values. The increase prior to the exemption resulted in a one year significant increase in State revenues because it is computed based on the preceding tax year (tax year 2014) when values were much lower, thus requiring more of an equalization from the State. Therefore, in 2016-2017 the State revenues will drastically be reduced because it will be calculated based on the 2015 tax year with the 15% property value increase thus requiring less State aid for equalization. The 2016 property values are projected to increase by 5%.

Based on HB 1 the District's State and Local revenue increased for 2015-2016 over last year's actual amount by \$4.6 million. But in 2016-2017 there was NO increase or additional monies over 2015-2016. Therefore, the District is building its budget using its current level of resources and other budget adjustments to provide for primarily increases in salary and wages.

Also separately, but related to the District's State funding, is the increase in the Homestead exemption to \$25,000 from \$15,000. Although this will result in less local revenues the State made adjustments in State funding to make up the difference in what the District would receive.

Based on the downward trend of ADA from prior years the District's 2016-2017 budget was based on 13,600. However, the actual ADA at year-end was 13,365. Although ADA was less than budgeted the State funding received at the Tier II level made up for the reduced funding at the Regular Allotment level in State funding. On-going adjustments and changes in the School Health and Related Services Medicaid program has provided increases in reimbursement for qualified services performed by the District.

As described in the following long-term financial planning this provided the additional resources for instruction and the District's financial viability. This was the result of following the District's policy of implementing an overall plan so that the budget effectively reflects the District's programs and activities and provides the resources to implement them. Within these programs and activities are the general educational goals, specific program goals, and alternatives for achieving program goals. These goals were formulated through the District and campus level planning and decision making committees who followed the District's policy on the Planning and Decision-Making Process.

Long Term Financial Planning

The equalization among school districts of access to resources must still be maintained by the State. Therefore, there are basically two methods of receiving additional revenue for operations: 1) increased enrollment and/or 2) increased tax effort.

Although, the District had experienced a growth in the average daily attendance (ADA) of 6% from 2009-2014, over the last three years it has decreased by a total of 554. However, on November 4, 2008 the District held a tax rate referendum to approve the adoption of a tax rate above the rate that required voter approval. The referendum passed by a 2 to 1 margin. The tax rate under the referendum increased the District's tax effort and thus additional revenue for operations. Any legislative changes have benefitted the District with increased State revenues due to this tax effort since the State must equalize funding with comparable efforts in property rich districts. The increased tax rate to \$1.17 was in effect for 2009 - 2017 fiscal years and will be for every year thereafter based on current State's method of funding school districts. The additional revenues the District receives averages \$1.5 million in M&O taxes and \$6.7 million from the State Revenues each year. Due to the successful passage of the tax referendum the District has maintained a financial plan to improve on the fund balance and maintain financial viability. The plan provides a conservative increase for employees, continuation of stipends, investment in instructional programs and initiatives, and annual set asides for fixed costs such as utilities. The result of this tax effort of the community and the adherence to the financial plan put in place has resulted in a General Fund unassigned fund balance of \$48.4 million from a fund balance of \$3 million seven years ago.

State Funding

The 2017-2018 School Year will be the first year of the State's budget for the biennium. However, the 85th Legislature failed to pass additional funding for public education. Therefore, the 2017-2018 budget will be based on the funding formulas of the last year of the previous biennium. As a result the basic allotment is at \$5,140 and the "Golden" pennies from the Austin Yield has increased to \$99.85 from a projected amount of last year's yield of \$77.53. This is due to Austin ISD's property wealth per student increasing due to an increase of 15% in property values. This increase has a significant impact on the District's Tier II funding since the District is at the maximum Maintenance and Operations tax rate of \$1.17.

Utilization of Fund Balance

The District, with the Board's leadership and Community support continue to maintain financial stability as evident with its fund balance. The overall fund balance will be \$56.3 million for the year ending June 30, 2017. Available amounts from the overall fund balance is the Unassigned Fund balance of \$48.4 million which addresses the Board's intent to maintain, at a minimum, two and one-half months of operations or \$25 million. The remaining amount of \$23.4 million will be used to continue the District's vision. Other types of fund balances within the overall fund balance are the set asides of the assigned fund balance for Other Facility and District Needs at \$3.2 million. The remaining amounts comprise of \$3.1 million fund balance in Child Nutrition program and \$1.6 million in obligations to be paid in the subsequent year.

Staff has reviewed these fund balances and have determined a proposed amount that is "available" to continue the District's Vision that began in 2014-2015 to improve and enhance the instructional and operational environment for the District's students:

- o Unassigned fund balance - \$23.4 million thus still maintaining the \$25 million representing 2 ½ months of operations.
- o Committed fund balance - Maintained at \$3.2 million for Facility and District Needs.

The factors considered in planning the use of these funds were:

- Instructional impact on Students
- Community and operational support for the Students
- Recurring and Non-recurring cost
- Sustainability of programs to insure successful implementation and Student Success

Major Initiatives and Accomplishments

The District achieved a rating of “Met Standard” for the 2016-2017 school year in all four indices. Major curriculum initiatives included ongoing staff development with a focus on the deepening of content knowledge for teachers through a cohort model, differentiated instruction for improving student achievement and continuous coaching support to campuses and individual teachers. Curriculum and Instruction continued to build a systemic Response to Intervention Program to ensure alignment across the district, in addition to supporting implementation of Professional Learning Communities. The District continues to fund opportunities for all 8th -11th grade students to participate in taking a college readiness test (PSAT & SAT) at no cost to students, in addition to providing more opportunities for our 9th-12th grade students to enroll in college level classes through both dual credit and early college high school programs, also no cost to students.

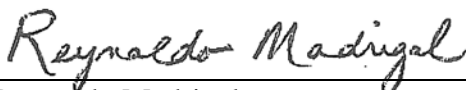
Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to Harlandale Independent School District for its comprehensive annual financial report for the twelve (12) months ended June 30, 2016. This was the twenty-third consecutive year that the District has received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

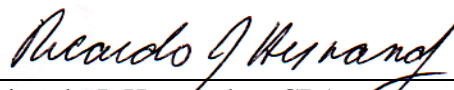
A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The timely preparation of this report could not have been accomplished without the efficient and dedicated assistance of the entire staff of the District’s Finance/Accounting Division. We would like to acknowledge our independent auditors, Garza/Gonzalez and Associates, for their role in providing professional guidance and assistance in the preparation of this report.

Finally, without the interest, leadership and support of the Board of Trustees, preparation of this report would not have been possible.



Reynaldo Madrigal
Superintendent of Schools



Ricardo J. Hernandez, CPA
Assistant Superintendent for Business

CERTIFICATE OF BOARD

Harlandale Independent School District
Name of School District

Bexar
County

015-904-20
County-District-Region No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved _____ disapproved for the year ended June 30, 2017 at a meeting of the Board of School Trustees of such school district on the 13 day of November, 2017.

Christine A. Carrillo
Signature of the Board Secretary

[Signature]
Signature of the Board President

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



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

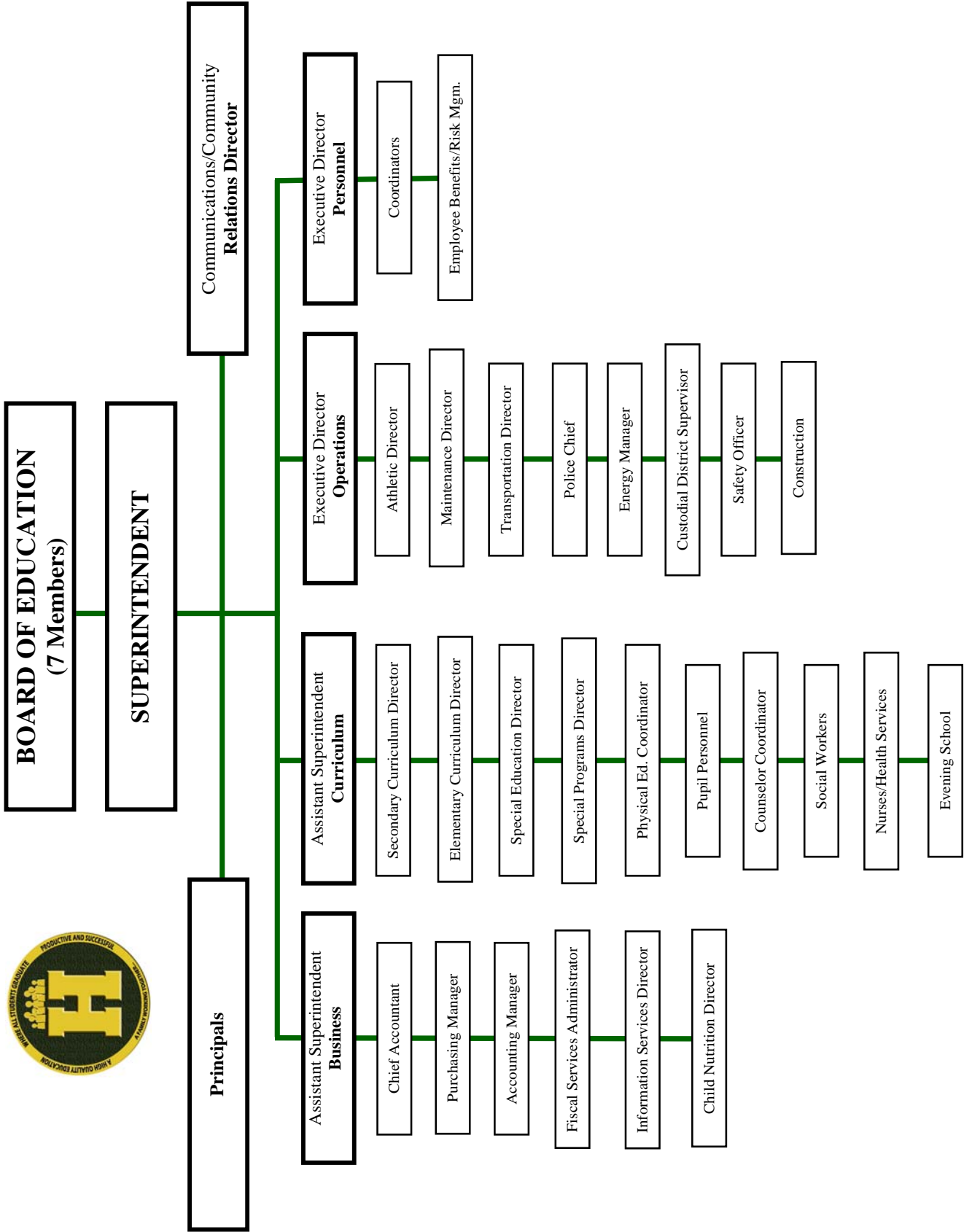
**Harlandale Independent School
District, Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

HARLANDALE INDEPENDENT SCHOOL DISTRICT



HARLANDALE INDEPENDENT SCHOOL DISTRICT

San Antonio, Texas

2017

LIST OF PRINCIPAL OFFICIALS

BOARD OF TRUSTEES

Mr. Carlos Quezada	President
Mr. Ricardo Moreno	Vice President
Ms. Christine Carrillo	Secretary
Mr. David Abundis	Trustee
Mr. Juan Mancha	Trustee
Mr. Esequiel “Zeke” Mendoza	Trustee
Mr. Jesus Tejeda	Trustee

ADMINISTRATORS

Mr. Reynaldo Madrigal	Superintendent of Schools
Mr. Ricardo J. Hernandez, CPA	Assistant Superintendent for Business
Ms. Samantha Gallegos	Assistant Superintendent for Curriculum & Instruction
Ms. Diane Tudyk	Executive Director for Human Resources
Mr. Gerardo Soto	Executive Director for Operations

**Financial
Section**

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of School Trustees
Harlandale Independent School District
San Antonio, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harlandale Independent School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information for the general fund, and the Teacher Retirement System pension information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

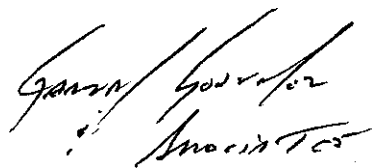
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, required Texas Education Agency (TEA) schedules, and the statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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, this information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Grant Gordon
Auditor

October 30, 2017

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MANAGEMENT'S DISCUSSION & ANALYSIS (UNAUDITED)

Management of the Harlandale Independent School District (the District) offers readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2017. The intent of this section is to look at the District's financial performance as a whole. We encourage readers to consider the additional information presented in the transmittal letter, presented in the introductory section, and the notes to the financial statements in conjunction with this discussion and analysis to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- Assets of the District exceeded liabilities by \$98,695,397 (net position). Of this amount, \$20,709,546 (unrestricted net position) may be used to meet the District's ongoing obligations. The net overall increase of \$3,176,613 in net position from the prior year is primarily due to the completion of construction projects resulting in a net increase in investment in Capital Assets by \$10.9 million but combined with a decrease of State funding due to a drop in student average daily attendance over the last three years by 139, 193 and 222 students.
- The ending fund balance of the District's General Fund was \$56 million. A decrease of \$1,678,476 in comparison with the prior year. The decrease is due to the District's fourth (4) year implementation plan to utilize its fund balance to enhance the instructional impact on students through expanded staff programs. The total of the General Fund Unassigned and Restricted for Federal and State funds, which represents the Child Nutrition program, was \$51.5 million representing 35.6% of annual operating expenditures.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Comprehensive Annual Financial Report consists of an Introductory Section, Financial Section, Statistical Section and a Federal Awards Section. The Financial Section consists of four parts – Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and other supplementary information that presents combining statements for non-major governmental funds. The statements are intended to be organized so that the reader can understand the District as an entire operating entity.

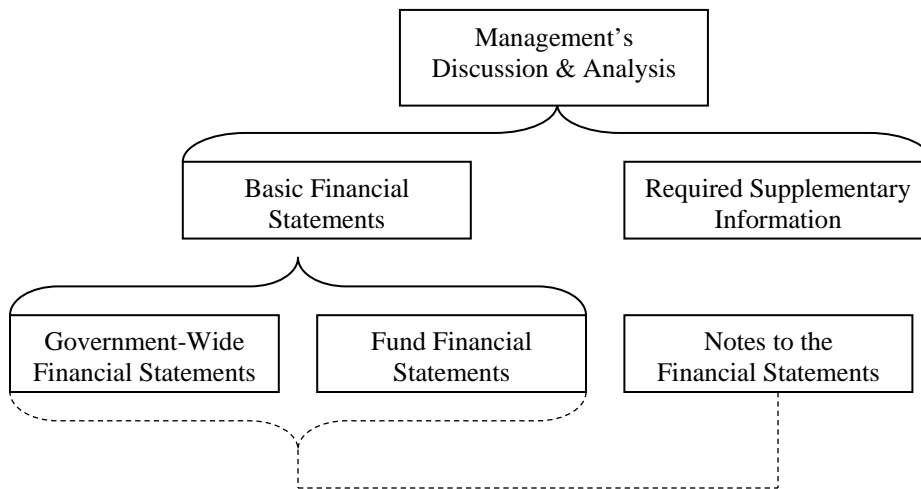
The basic financial statements include two kinds of statements that present different views of the District in addition to the notes that explain some of the information in the financial statements and provide data that are more detailed:

1. The first two statements are government-wide financial statements – the Statement of Net Position and the Statement of Activities, provide both long-term and short-term information about the District's overall financial status.
2. The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-

wide statements. The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-and-long-term financial information about the activities the government operates like businesses, such as worker compensation services. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as an agent for the benefit of others, to whom the resources in question belong.

The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

**Figure A-1
Required Components of the District’s Financial Report**



Government-Wide Financial Statements (Reporting the District as a Whole)

These statements summarize the large number of funds used by the District to provide programs and activities and view the entire District as a whole. The Statement of Net Position includes all assets, deferred outflows/inflows of resources, and liabilities of the District using the accrual basis of accounting similar to the accounting used by most private-sector companies. The Statement of Activities takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid. All inter-fund transactions are eliminated. These two statements report the District’s net position and changes in the net position. Net position, the difference between the District’s assets plus deferred outflows and liabilities plus deferred inflows, are one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s net position are an indication of whether its financial health is improving or deteriorating, respectively. Change in net position is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or

diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the District's property tax base, current Texas school finance laws, student decline, facility needs, and required educational programs.

The District reports governmental activities in the Statement of Net Position and the Statement of Activities. Governmental activities are the activities where most of the District's programs and services are reported including, but not limited to, instruction, support services, administration, maintenance, pupil transportation and extracurricular activities. The District does not have any business type activities.

Fund Financial Statements (Reporting the School District's Most Significant Funds)

Fund financial statements provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions that have been separated for specific activities or projects. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund, Debt Service Fund, and the Capital Projects Fund.

All the funds of the District can be described by three categories:

- **Governmental Funds** – Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.
- **Proprietary Funds** – Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. We use an internal service fund to report the activities that provide services for the District's other programs and activities—such as the District's self-funded workers' compensation program.
- **Fiduciary Funds** – The District is the trustee for Student Activity Funds. The District's fiduciary activity is reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Government-wide)

Net Position

The District's net position were approximately \$98.7 million at June 30, 2017.

Table A-1
Net Position
(in millions of dollars)

	6/30/2017	6/30/2016	Increase (Decrease)
Current and Other Assets	\$ 147.1	\$ 144.1	\$ 3.0
Capital Assets	239.0	243.4	(4.4)
Total Assets	386.1	387.5	(1.4)
Deferred Outflows-Resources	27.4	29.2	(1.8)
Current and Other Liabilities	37.9	36.4	1.5
Long-Term Liabilities	274.0	281.6	(7.6)
Total Liabilities	311.9	318.0	(6.1)
Deferred Inflows - Resources	2.9	3.2	(0.3)
Net Position			
Net Investment in Capital Assets	61.4	50.5	10.9
Restricted	16.6	18.0	(1.4)
Unrestricted	20.7	27.0	(6.3)
Total Net Position	\$ 98.7	\$ 95.5	\$ 3.2

- The \$20.7 million of unrestricted net position represents resources available to meet the District's ongoing obligations to citizens and creditors.

Changes in Net Position

The District's total revenues were \$177.58 million (See Table A-2). A significant portion, 59%, of the District's revenue comes from state aid-formula funding, 12.2% comes from property taxes, 26.2% from operating grants and contributions, 1.8% from charges for service, and .8% from investments, other revenue and special item.

The total cost of all programs and services was \$183.64 million; 79.9% of these costs are for instructional and student support services.

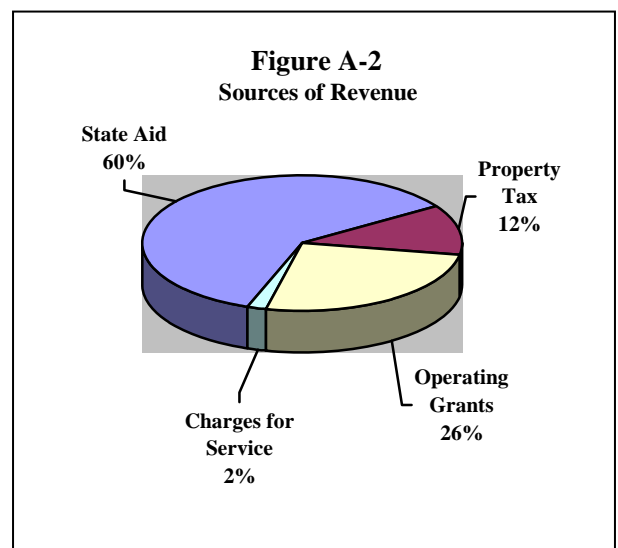


Table A-2
Change in Net Position
(in millions of dollars)

	Governmental		
	Activities		
	Year Ended		Increase
	6/30/2017	6/30/2016	(Decrease)
Revenues			
<u>Program Revenues</u>			
Charges for Services			
Tuition and Fees	\$ 0.22	\$ 0.17	\$ 0.05
Student Extra-Curricular Activities	3.02	2.40	0.62
Operating Grants and Contributions	46.47	47.70	(1.23)
<u>General Revenues</u>			
Property Taxes	21.72	19.58	2.14
State Aid - formula	104.81	111.31	(6.50)
Investment Earnings	0.82	0.35	0.47
Miscellaneous Local and Intermediate Revenue	0.52	0.41	0.11
Total Revenues	<u>177.58</u>	<u>181.92</u>	<u>(4.34)</u>
Expenses			
Instruction	99.47	101.11	(1.64)
Instructional Resources & Media Services	2.72	2.56	0.16
Curriculum & Staff Development	4.66	4.68	(0.02)
Instructional Leadership	1.75	1.82	(0.07)
School Leadership	10.45	9.99	0.46
Guidance, Counseling & Evaluation Services	5.70	5.54	0.16
Social Work Services	1.64	1.63	0.01
Health Services	2.06	2.04	0.02
Student (pupil) Transportation	3.35	3.60	(0.25)
Food Services	12.10	12.70	(0.60)
Extra Curricular Activities	2.87	2.72	0.15
General Administration	4.15	4.11	0.04
Plant Maintenance and Operations	18.14	19.28	(1.14)
Security & Monitoring Services	2.00	1.99	0.01
Data Processing Services	3.36	3.22	0.14
Community Services	0.32	0.33	(0.01)
Debt Service - Interest and Issuance Cost & Fee	8.90	9.15	(0.25)
Total Expenses	<u>183.64</u>	<u>186.47</u>	<u>(2.83)</u>
Net Revenues Over Expenses	(6.06)	(4.55)	(1.51)
Extraordinary item - Resource	9.23	-	9.23
Change in Net Position	<u>3.17</u>	<u>(4.55)</u>	<u>7.72</u>
Beginning Net Position	95.52	107.32	(11.80)
Ending Net Position	<u>\$ 98.69</u>	<u>\$ 102.77</u>	<u>\$ (4.08)</u>

Governmental Activities

- The total property tax collection of the current levy continues to be at 97.5% with a total tax collection of \$21.57 million.

Table A-3 presents the cost of each of the District’s largest functions as well as each function’s net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what state revenues as well as local tax dollars funded.

Table A-3
Net Cost of Selected District Functions
(in millions of dollars)

	Cost of Services			
	6/30/2017		6/30/2016	
	Total	Net	Total	Net
Instruction	\$ 99.47	\$ 81.90	\$ 101.11	\$ 85.08
School Leadership	10.45	9.54	9.99	9.09
Guidance/Counseling	5.70	4.90	5.54	4.82
Student Transportation	3.35	2.90	3.60	3.26
Food Services	12.10	(0.06)	12.70	0.64
Plant Maintenance and Operations	18.14	17.47	19.28	18.65
Debt Service	8.90	(4.00)	9.15	(4.39)

- Instruction and instructional related activities comprises 58% of the District’s expenses.
- The net cost of all governmental activities this year (the amount that the District’s paid for from property taxes, state aid, and other revenues) was \$133.92 million.
- The cost paid through State aid in the form of formula grants was \$104.80 million.
- The cost paid by the programs that directly benefited from the grants for a specific purpose was \$46.47 million.
- The cost paid in charges for services was \$3.24 million, which was comprised mainly from food sales and student campus activity.
- Due to State funding approximately 72% of the District’s bonded debt the net positive cost of \$4 million of the amount is contributed to the principal portion of the District’s annual payment.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Using the modified accrual basis of accounting, revenues from governmental funds totaled \$176.33 million and expenditures were \$186.93 million. The District reported combined governmental funds ending fund balances of \$119.46 million, a decrease of \$648,646 over the prior year. Impacting this decrease was the net deficiency of revenues over expenditures of \$10.6 million being offset with funds from an extraordinary item of \$9.2 million and a net source from refunded bonds of \$727,186. The General Fund had a decrease of \$1.7 million. The decrease is the result of the District to utilize fund balance to enhance and sustain, for effectiveness, instructional and operational initiatives. These initiatives included adding instructional personnel across various programs, equipment for ECHS, and various other instructional supplies and materials. The District continues its efforts in obtaining School Health Related Services (Medicaid) reimbursement for serving eligible participants and received \$2.4 million. Additionally, the Board has maintained a commitment of \$3.2 million for one time initiative costs to upgrade and improve equipment materials, and facility improvements in the subsequent school years. The Unassigned fund balance for the General Fund is \$48.37 million.

The Debt Service fund realized an decrease in the fund balance by \$1.58 million. This was due to the refunding's that were transacted to reduce future principal and interest amounts. The debt payments of August 15, 2017 consisting of principal and interest will be met with the cash and cash equivalents available as of June 30, 2017. The District receives its resources of property taxes and state funding to meet debt obligations primarily from November through February.

The analysis of the capital project fund and debt service fund is presented in the following Capital Assets and Long-Term Debt sections.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. The budget amendments can be characterized into three categories:

- Budget Category #1 reflects adjustments for carryover of appropriations because of commitments made against the budget for goods and services not received or incomplete as of June 30, 2017.
- Budget Category #2 included an increase in estimated revenues and similar increase in appropriations. No impact on fund balance resulted from this amendment.
- Budget Category #3 included all adjustments authorized by the Board of Trustees throughout the year. Additionally, accounts were also adjusted to reflect a fairly accurate fund balance at the close of the school year.

In conjunction with these adjustments, actual expenditures were \$7.4 million below final budget amounts. The most significant positive variance resulted mainly from staffing. Staffing is budgeted for full employment throughout the full year. Revenues were \$977,815 below the final amended amount. This was primarily due to the District's decrease in average daily attendance by 222 students and its effect on the State funding formulas.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had invested \$346.54 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (see Table A-4). This amount represents a net increase (including additions and deductions) of \$889,045. Detailed information about the District's capital assets is presented in the notes to the Financial Statements under Note G.

The District's construction for the year consisted of the completion of two of the three planned parking lots. Additionally, it included the construction in progress of two elementary campuses. The construction of the campuses are scheduled to be completed for the start of the 2018-2019 school year.

	<u>6/30/2017</u>	<u>6/30/2016</u>
Land	\$ 1.94	\$ 1.86
Buildings and Improvements	328.40	332.65
Furniture and Equipment	10.34	10.28
Construction in Progress	5.86	0.87
Total at Historical Cost	<u>346.54</u>	<u>345.66</u>
Total Accumulated Depreciation	<u>(107.53)</u>	<u>(102.31)</u>
Net Capital Assets	<u>\$ 239.01</u>	<u>\$ 243.35</u>

Long-Term Debt

At year-end, the District had \$240.29 million in long-term debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the Notes to the Financial Statements under Note L.

	<u>6/30/2017</u>	<u>6/30/2016</u>
Bonds Payable	\$ 239.60	\$ 250.00
Compensated Absences	0.69	0.65
Total Long-Term Debt	<u>\$ 240.29</u>	<u>\$ 250.65</u>

The District refunded bonds resulting in an overall net present value savings of \$4.38 million. The District is maintaining its 2016-2017 debt service tax rate at \$0.3588 of a \$100 taxable property valuation. The estimated tax levy and the State support of 72% continues to annual payment to support the District's debt.

Long-term bonds are rated "AAA" by Moody's Investors Service, Inc. ("Moody's"), Standard and Poor's ("S&P"), and Fitch Investors Service ("Fitch") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The underlying long-term credit rating of the District received an upgrade from Fitch to AA from AA- and maintained A1 rating from Moody's.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATES

The 2017-2018 School Year will be the first year of the State's budget for the biennium. The District continues to experience a decrease in ADA. The budgeted ADA for 2016-2017 was 13,600. Resources earned and initially budgeted for operations but unspent at year end will be absorbed as Unrestricted and available for student, staff and/or capital improvement needs.

Therefore, based on this trend the District maintaining budgeted revenues for next year 2017-2018 at an ADA of 13,600. Based on this projection state aid is expected to increase by \$1.3 million and property tax revenue is expected to also increase by \$1.77 million. This is due to an increase in appraisal values which increased the equalized wealth level for all school districts. Thus netting an overall increase of \$3.2 million.

DISTRICT 2017-2018 BUDGET

The 2017-2018 School Year will be the first year of the State's budget for the biennium. However, the 85th Legislature failed to pass additional funding for public education. Therefore, the 2017-2018 budget will be based on the funding formulas of the last year of the previous biennium. As a result the basic allotment is at \$5,140 and the "Golden" pennies from the Austin Yield has increased to \$99.85 from a projected amount of last year's yield of \$77.53. This is due to Austin ISD's property wealth per student increasing due to an increase of 15% in property values. This increase has a significant impact on the District's Tier II funding since the District is at the maximum Maintenance and Operations tax rate of \$1.17.

UTILIZATION OF FUND BALANCE

The District, with the Board's leadership and Community support continue to maintain financial stability as evident with its fund balance. The projected overall fund balance will decrease to \$57.8 million for the budget year ending June 30, 2017. Available amounts from the overall fund balance is the Unassigned Fund balance of \$50.2 million which addresses the Board's intent to maintain, at a minimum, two and one-half months of operations or \$25 million. The remaining amount of \$25.2 million will be used to continue the District's vision. Other types of fund balances within the overall fund balance are the set asides of the assigned fund balance for Other Facility and District Needs at \$3.2 million. The remaining amounts comprise of \$2.8 million fund balance in Child Nutrition program and \$1.6 million in obligations to be paid in the subsequent year.

Staff has reviewed these fund balances and have determined a proposed amount that is "available" to continue the District's Vision that began in 2014-2015 to improve and enhance the instructional and operational environment for the District's students:

- Unassigned fund balance - \$25.2 million thus still maintaining the \$25 million representing 2 ½ months of operations.
- Committed fund balance - Maintained at \$3.2 million for Facility and District Needs.

The factors considered in planning the use of these funds were:

- Instructional impact on Students
- Community and operational support for the Students
- Recurring and Non-recurring cost
- Sustainability of programs to insure successful implementation and Student Success

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the District's Assistant Superintendent for Business at Harlandale ISD, 102 Genevieve, San Antonio, Texas 78214.

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BASIC FINANCIAL STATEMENTS

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HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 25,632,112
1120 Current Investments	111,260,525
1220 Property Taxes Receivable (Delinquent)	3,871,284
1230 Allowance for Uncollectible Taxes	(193,564)
1240 Due from Other Governments	3,791,326
1250 Accrued Interest	32,286
1290 Other Receivables, net	39,526
1300 Inventories	472,197
1490 Other Current Assets	129,104
Capital Assets:	
1510 Land	1,941,247
1520 Buildings, Net	228,437,947
1530 Furniture and Equipment, Net	2,767,797
1580 Construction in Progress	5,866,395
1800 Restricted Assets	2,085,959
1000 Total Assets	386,134,141
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	11,673,249
1705 Deferred Outflow Related to TRS	15,740,594
1700 Total Deferred Outflows of Resources	27,413,843
LIABILITIES	
2110 Accounts Payable	2,788,522
2140 Interest Payable	4,358,691
2150 Payroll Deductions & Withholdings	2,054,660
2160 Accrued Wages Payable	16,422,299
2180 Due to Other Governments	517,590
2190 Due to Student Groups	84,782
2200 Accrued Expenses	260,025
2300 Unearned Revenue	29,407
2400 Payable from Restricted Assets	2,085,959
Noncurrent Liabilities	
2501 Due Within One Year	9,436,443
2502 Due in More Than One Year	230,855,159
2540 Net Pension Liability (District's Share)	43,050,972
2000 Total Liabilities	311,944,509
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	2,908,078
2600 Total Deferred Inflows of Resources	2,908,078
NET POSITION	
3200 Net Investment in Capital Assets	61,366,735
3820 Restricted for Federal and State Programs	3,125,306
3850 Restricted for Debt Service	13,493,810
3900 Unrestricted	20,709,546
3000 Total Net Position	\$ 98,695,397

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

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HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 99,471,319	\$ 1,622,865	\$ 15,948,255	\$ (81,900,199)
12 Instructional Resources and Media Services	2,719,822	-	345,613	(2,374,209)
13 Curriculum and Staff Development	4,664,870	-	1,281,136	(3,383,734)
21 Instructional Leadership	1,753,658	-	320,877	(1,432,781)
23 School Leadership	10,446,714	95,081	808,393	(9,543,240)
31 Guidance, Counseling and Evaluation Services	5,697,064	-	797,901	(4,899,163)
32 Social Work Services	1,636,756	-	134,757	(1,501,999)
33 Health Services	2,062,732	-	542,406	(1,520,326)
34 Student (Pupil) Transportation	3,351,650	-	451,995	(2,899,655)
35 Food Services	12,103,779	623,903	11,536,101	56,225
36 Extracurricular Activities	2,873,160	424,774	95,957	(2,352,429)
41 General Administration	4,149,964	415,502	211,287	(3,523,175)
51 Facilities Maintenance and Operations	18,140,738	62,325	612,784	(17,465,629)
52 Security and Monitoring Services	1,996,537	-	131,445	(1,865,092)
53 Data Processing Services	3,353,730	-	96,003	(3,257,727)
61 Community Services	323,951	-	258,500	(65,451)
72 Debt Service - Interest on Long Term Debt	8,155,611	-	12,160,532	4,004,921
73 Debt Service - Bond Issuance Cost and Fees	738,658	-	738,658	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 183,640,713	\$ 3,244,450	\$ 46,472,600	(133,923,663)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			16,719,960
DT	Property Taxes, Levied for Debt Service			5,002,955
GC	Grants and Contributions not Restricted			104,805,739
IE	Investment Earnings			823,539
MI	Miscellaneous Local and Intermediate Revenue			521,945
E1	Extraordinary Item - resource			9,226,141
TR	Total General Revenues & Extraordinary Items			137,100,279
CN	Change in Net Position			3,176,616
NB	Net Position - Beginning			95,518,781
NE	Net Position--Ending			\$ 98,695,397

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 18,277,410	\$ 763,539	\$ 4,750,100
1120 Investments - Current	52,786,615	15,800,374	42,673,536
1220 Property Taxes - Delinquent	3,002,817	868,467	-
1230 Allowance for Uncollectible Taxes (Credit)	(150,141)	(43,423)	-
1240 Receivables from Other Governments	2,439,912	399	-
1250 Accrued Interest	7,367	-	24,919
1260 Due from Other Funds	1,957,479	354,746	-
1290 Other Receivables	39,526	-	-
1300 Inventories	472,197	-	-
1490 Other Current Assets	129,104	-	-
1800 Restricted Assets	-	2,085,959	-
1000 Total Assets	<u>\$ 78,962,286</u>	<u>\$ 19,830,061</u>	<u>\$ 47,448,555</u>
LIABILITIES			
2110 Accounts Payable	\$ 1,170,626	\$ 581	\$ 1,216,739
2150 Payroll Deductions and Withholdings Payable	2,054,660	-	-
2160 Accrued Wages Payable	15,137,235	-	-
2170 Due to Other Funds	1,898,682	-	-
2180 Due to Other Governments	14,767	502,393	-
2190 Due to Student Groups	84,782	-	-
2200 Accrued Expenditures	6,025	-	-
2300 Unearned Revenues	24,171	-	-
2400 Payable from Restricted Assets	-	2,085,959	-
2000 Total Liabilities	<u>20,390,948</u>	<u>2,588,933</u>	<u>1,216,739</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	2,225,849	633,103	-
2600 Total Deferred Inflows of Resources	<u>2,225,849</u>	<u>633,103</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	448,026	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	3,125,306	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	12,616,902
3480 Retirement of Long-Term Debt	-	16,608,025	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	3,241,630	-	-
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	1,163,687	-	33,614,914
3600 Unassigned Fund Balance	48,366,840	-	-
3000 Total Fund Balances	<u>56,345,489</u>	<u>16,608,025</u>	<u>46,231,816</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 78,962,286</u>	<u>\$ 19,830,061</u>	<u>\$ 47,448,555</u>

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

Other Funds	Total Governmental Funds
\$ 975,554	\$ 24,766,603
-	111,260,525
-	3,871,284
-	(193,564)
1,351,015	3,791,326
-	32,286
940	2,313,165
-	39,526
-	472,197
-	129,104
-	2,085,959
<u>\$ 2,327,509</u>	<u>\$ 148,568,411</u>
\$ 398,194	\$ 2,786,140
-	2,054,660
1,273,724	16,410,959
374,121	2,272,803
430	517,590
-	84,782
-	6,025
5,236	29,407
-	2,085,959
<u>2,051,705</u>	<u>26,248,325</u>
-	2,858,952
<u>-</u>	<u>2,858,952</u>
-	448,026
-	3,125,306
-	12,616,902
-	16,608,025
-	3,241,630
275,804	35,054,405
-	48,366,840
<u>275,804</u>	<u>119,461,134</u>
<u>\$ 2,327,509</u>	<u>\$ 148,568,411</u>

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HARLANDALE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balances - Governmental Funds	\$ 119,461,134
1 The District uses internal service funds to charge for the costs for the activity of the self-insured workers compensation program to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	557,424
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. See Note B1 to the financial statements for details. 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. See Note B1.	3,426,000
3 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 2017 capital outlays and debt principal payments is to increase net position. See note B2 for further details.	11,200,887
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$18,447,960, a Deferred Resource Inflow in the amount of \$3,165,076 and a net pension liability in the amount of \$42,527,807. The impact of this on net position is (\$27,244,923). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$2,973,533). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$30,218,456).	(30,218,456)
5 The 2017 depreciation expense increased accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(8,590,544)
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 as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.	2,858,952
19 Net Position of Governmental Activities	\$ 98,695,397

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 18,952,902	\$ 5,274,556	\$ 420,992
5800 State Program Revenues	110,016,395	12,899,190	-
5900 Federal Program Revenues	14,037,326	-	-
5020 Total Revenues	<u>143,006,623</u>	<u>18,173,746</u>	<u>420,992</u>
EXPENDITURES:			
Current:			
0011 Instruction	76,853,959	-	-
0012 Instructional Resources and Media Services	2,237,195	-	-
0013 Curriculum and Instructional Staff Development	3,435,199	-	-
0021 Instructional Leadership	1,462,750	-	-
0023 School Leadership	9,042,607	-	-
0031 Guidance, Counseling and Evaluation Services	4,926,588	-	-
0032 Social Work Services	1,464,301	-	-
0033 Health Services	1,828,462	-	-
0034 Student (Pupil) Transportation	3,306,707	-	-
0035 Food Services	11,563,274	-	-
0036 Extracurricular Activities	2,394,038	-	-
0041 General Administration	3,915,794	-	-
0051 Facilities Maintenance and Operations	16,497,785	-	765,093
0052 Security and Monitoring Services	1,922,971	-	-
0053 Data Processing Services	3,535,740	-	-
0061 Community Services	49,315	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	11,510,371	-
0072 Interest on Long Term Debt	-	8,231,117	-
0073 Bond Issuance Cost and Fees	-	738,658	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	6,281,685
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	87,565	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	62,219	-	-
0099 Other Intergovernmental Charges	98,630	-	-
6030 Total Expenditures	<u>144,685,099</u>	<u>20,480,146</u>	<u>7,046,778</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,678,476)</u>	<u>(2,306,400)</u>	<u>(6,625,786)</u>
OTHER FINANCING SOURCES (USES):			
7911 Issuance of Refunding Bonds	-	43,765,000	-
7916 Discount on Issuance of Bonds	-	5,876,101	-
8949 Payment to Refunded Bonds Escrow Agent	-	(48,913,915)	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>727,186</u>	<u>-</u>
EXTRAORDINARY ITEMS:			
7919 Extraordinary Item - Resource	-	-	9,226,141
1200 Net Change in Fund Balances	<u>(1,678,476)</u>	<u>(1,579,214)</u>	<u>2,600,355</u>
0100 Fund Balance - July 1 (Beginning)	<u>58,023,965</u>	<u>18,187,239</u>	<u>43,631,461</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 56,345,489</u>	<u>\$ 16,608,025</u>	<u>\$ 46,231,816</u>

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

	Other Funds	Total Governmental Funds
\$	1,520,110	\$ 26,168,560
	810,909	123,726,494
	12,395,873	26,433,199
	14,726,892	176,328,253
	11,940,151	88,794,110
	218,557	2,455,752
	1,107,667	4,542,866
	247,133	1,709,883
	431,306	9,473,913
	375,652	5,302,240
	46,920	1,511,221
	-	1,828,462
	-	3,306,707
	-	11,563,274
	44,149	2,438,187
	10,875	3,926,669
	21,570	17,284,448
	1,567	1,924,538
	-	3,535,740
	272,656	321,971
	-	11,510,371
	-	8,231,117
	-	738,658
	-	6,281,685
	-	87,565
	-	62,219
	-	98,630
	14,718,203	186,930,226
	8,689	(10,601,973)
	-	43,765,000
	-	5,876,101
	-	(48,913,915)
	-	727,186
	-	9,226,141
	8,689	(648,646)
	267,115	120,109,780
\$	275,804	\$ 119,461,134

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HARLANDALE 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 JUNE 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	(648,646)
<p>The District uses internal service funds to charge the costs for the activity of the self-insured workers compensation program to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.</p>		
		175,499
<p>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. Also, governmental funds report the effect of bond refundings, issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of removing the capital outlays and debt principal payments is to increase net position. See note B.2 to the financial statements for further details.</p>		
		15,069,614
<p>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.</p>		
		(8,590,544)
<p>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, eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase net position.</p>		
		144,226
<p>Current year changes due to GASB 68 increased revenues in the amount of \$1,118,645 but also increased expenditures in the amount of \$4,092,178. The net effect on the change in the ending net position was a decrease in the amount of \$2,973,533.</p>		
		(2,973,533)
Change in Net Position of Governmental Activities	\$	3,176,616

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 865,509
Total Assets	865,509
LIABILITIES	
Current Liabilities:	
Accounts Payable	2,383
Accrued Wages Payable	11,340
Due to Other Funds	40,362
Accrued Expenses	254,000
Total Liabilities	308,085
NET POSITION	
Unrestricted Net Position	557,424
Total Net Position	\$ 557,424

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 725,393
State Program Revenues	7,285
Total Operating Revenues	732,678
OPERATING EXPENSES:	
Payroll Costs	135,066
Professional and Contracted Services	59,564
Supplies and Materials	18,921
Other Operating Costs	343,689
Total Operating Expenses	557,240
Operating Income	175,438
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	61
Total Nonoperating Revenues (Expenses)	61
Change in Net Position	175,499
Total Net Position - July 1 (Beginning)	381,925
Total Net Position - June 30 (Ending)	\$ 557,424

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 732,678
Cash Payments to Employees for Services	(134,754)
Cash Payments for Suppliers	(507,362)
Net Cash Provided by Operating Activities	90,562
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	61
Net Increase in Cash and Cash Equivalents	90,623
Cash and Cash Equivalents at Beginning of Year	774,886
Cash and Cash Equivalents at End of Year	\$ 865,509
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income:	\$ 175,438
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease in Due from Other Funds	745
Increase in Accounts Payable	1,765
Increase in Accrued Wages Payable	312
Decrease in Due to Other Funds	(3,698)
Decrease in Accrued Expenses	(84,000)
Net Cash Provided by Operating Activities	\$ 90,562

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

HARLANDALE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 JUNE 30, 2017

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 442,688
Total Assets	<u>\$ 442,688</u>
LIABILITIES	
Due to Other Governments	\$ 1,752
Due to Student Groups	440,936
Total Liabilities	<u>\$ 442,688</u>

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

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Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Harlandale Independent School District (District) a public educational agency was chartered by the State of Texas in 1924. The District encompasses 13.7 square miles and serves over 15,000 students. There are 13 elementary schools, 4 middle schools, 3 high schools, 2 alternative centers, and 1 center for individuals with disabilities.

The Board of School Trustees (Board), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the Harlandale Independent School District, San Antonio, Texas. Because members of the Board of Trustees are elected by the public, have the authority to make decisions, appoint administrators and managers, significantly influence operations, and have the primary accountability for fiscal matters, the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board (GASB), Statement No. 61, "The Financial Reporting Entity: omnibus – an amendment of GASB Statements No. 14 and No. 34"

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

During fiscal year 1997, the District approved the formation of the Harlandale Independent School District Public Facilities Corporation ("the Corporation"). The District has reflected this Corporation as a blended component unit using the following criteria:

- The Corporation is organized exclusively for the purpose of benefiting and accomplishing public purposes of, and to act on behalf of, the District.
- The Corporation is organized to assist in the financing, accounting, refinancing, or providing "public facilities", to purchase obligations of the District, and to incur obligations issued or incurred in accordance with existing law.
- The Corporation's governing body is the same as the governing body of the District.

There are no year end balances to report for the Corporation.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. statement of net position and the statement of (activities) display information about the District's non-fiduciary activities of the primary government and its component unit. All interfund transactions between governmental funds and internal service funds are eliminated in the government-wide statements. There are no other

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

interfund services provided and used in the District. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges for services and operating grants and contributions. Charges for services consist of charges to customers or applicants that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Operating grants and contributions include amounts paid by organizations outside the District that are restricted to meeting the operational requirements of a particular program. Property taxes, State aid -formula grants, and other items not included in program revenues are presented as general revenues. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses result from providing services in connection with the internal service funds of the self-insurance program. Operating expenses for internal service fund include the administrative expenses. All other revenues and expenses are nonoperating.

School districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

3. Measurement Focus Basis of Accounting And Financial Statement Presentation

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Agency Funds utilize the accrual basis of accounting but do not have measurement focus as they report only assets and liabilities. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met. The fiduciary fund financial statement is accounted for using the accrual basis of accounting and includes an Agency Fund, which principally consists of funds set aside for monies that are collected through fund raising efforts of the individual schools or school-sponsored groups (student activity funds).

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they are both measurable and available. For this purpose, the District considers all revenues to be available if the revenues are collected within sixty days after year-end. Expenditures generally are recorded when the related fund liability is incurred, if measurable, except for debt service expenditures, claims and judgments, and compensated absences, which are recognized as expenditures only when payment is due. Property tax revenue and revenues received from the State are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenues 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. General capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grants 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 sometime require the District to refund all or part of the unused amount.

The Proprietary Fund is accounted for using the economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The net positions are segregated into net investment in capital assets, restricted net position, and unrestricted net position.

The District reports the following major governmental funds:

- General Fund -The District accounts for financial resources used for the fundamental operations of the District. All revenues and expenditures not required to be accounted for in other funds are included here. It is a budgeted fund, and any fund balances are considered resources available for current operations. General Fund primary revenue sources include local property taxes and state funding.
- The District's Child Nutrition Program is considered a part of the General Fund since it meets the following criteria: (1) No user fees are charged; i.e., students are not charged for meals and (2) participation in the National School Lunch Program is not a factor. The General Fund subsidizes the Child Nutrition Program for all amounts required in excess of the reimbursements.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Debt Service Fund -The Debt Service Fund accounts for the accumulation of resources for, and the payment of, bonded debt principal and interest. The primary revenue source is local property taxes levied specifically for debt service and state funding. The fund balance of this fund represents amounts that will be used for retirement of bonds and payment of interest in the future. The Debt Service Fund is a budgeted fund.
- Capital Projects Fund -The Capital Projects Fund was established to account for the proceeds from the sale of bonds including earnings on investments of the fund. Proceeds are used for acquiring school sites, constructing and equipping new school facilities, and renovating existing facilities.

Additionally, the District reports the following fund types:

- The Special Revenue Funds -These funds are used to account for the majority of federal and state funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks. Generally, unused balances are returned to the grantor at the close of specified project periods.
- The Internal Service Fund -This fund is used to account for the financing of services provided by one fund to other funds of the District, on a cost -reimbursement basis. This activity includes the worker's compensation self-insurance program of the District. This is not a budgeted fund.
- Agency Fund -This fund is used to account for assets held by the District as agent for individuals. The funds set aside are for school-sponsored groups (student activity funds).

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets

The official budget was prepared for adoption for the General Fund, Debt Service Fund and the Child Nutrition Program as a subfund of the General Fund. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- 1) Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 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 after ten days public notice of the meeting has been given.
- 3) Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The legal level of budgetary control is at the major functional expenditure level by fund type. As required by TEA, annual budgets are adopted for the General Fund, Child Nutrition Program, and Debt Service Fund on a basis consistent with generally accepted accounting principles. A Child Nutrition program budget is adopted separately. All budget appropriations lapse at year end even if they have related encumbrances. Encumbrances are commitments to purchase goods or services that were not fully executed at year end. Encumbrance accounting is used to ensure effective budgetary control and accountability. While encumbrances lapse at year end, valid, outstanding encumbrances are re-appropriated and become part of the subsequent year's budget.

The original budget was approved by the Board on June 20, 2016. The budget may be amended by management without Board approval within a major functional expenditure category and can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments at the function and fund level are presented to the Board at its regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board and are made before the fiscal year end as required by law.

The budget amounts included in this report reflect various amendments made by management or adopted by the Board throughout the year through the final amended budget, which was approved by the Board on June 19, 2017.

During the year the budget was properly amended in accordance with the above procedures, except as noted below.

	<u>Final</u> <u>Appropriations</u>	<u>Actual</u> <u>Expenditures</u>	<u>(Excess)</u>
<u>General Fund:</u>			
31 Guidance Counseling & Evaluation Services	\$ 4,907,616	\$ 4,926,588	\$ (18,972)
36 Extracurricular Activities	2,335,220	2,394,038	(58,818)
52 Security & Monitoring Services	1,908,000	1,922,971	(14,971)

- Guidance Counseling & Evaluation Service - Although an amendment for the year-end on-behalf was made in May, 2017 the total budgeted amount was underestimated.
- Extracurricular Activities - An increase in student participation in middle school resulted in additional coaches and related stipends to ensure student safety and management.
- Security & Monitoring Services - Although an amendment for the year-end was made in May, 2017 the total budgeted amount was underestimated.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Inventories

Inventories of supplies on the balance sheet are stated at cost, determined on the weighted average method, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventories are maintained on a perpetual inventory system and adjusted at year end to physical count balances, if necessary. Inventory in governmental funds consist of expendable goods held for consumption. Reported inventories in these funds are equally offset by a fund balance reserve, or unearned revenue in the case of U.S.D.A. donated commodities, which indicates they do not constitute "available spendable resources" and therefore are unavailable for appropriation. Expenditures are recorded when individual inventory items are requisitioned or consumed.

6. Restricted Assets

Restricted assets represents required deposits made into a "Cumulative Sinking Fund Deposit Account" created and maintained by the District, in accordance with a bond covenant. The funds deposited and interest earned on those deposits are restricted to pay the principal on the Unlimited Tax Qualified School Construction Bonds Series 2009 at maturity or redemption.

7. Long-Term Debt

Long-term debt are reported as liabilities in the applicable government activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method or straight-line method, as applicable.

In the fund financial statements, governmental fund types recognized bond premiums and discounts during the 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.

8. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress are reported 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 of more than one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	40 years
Automotive Equipment	5 - 10 years
Furniture and Equipment	10 years

9. Fund Balance

During fiscal year 2011, the District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*.” In applying this statement, the initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*; such as, fund balance associated with inventories, and then identifying other amounts to be classified as *restricted*, *committed*, *assigned*, and *unassigned* based on the relative strength of the constraints that control how specific amounts can be spent.

The District uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts not available for appropriation or legally earmarked for a specific use. Examples include inventories, prepaid items, and deferred expenditures.

Restricted – amounts that have been legally separated for a specific purpose; such as, grants, capital acquisition from bond proceeds and long term debt.

Committed – amounts that require Board (the government’s highest level of decision-making authority) formal action by majority vote (Board resolution) to be used for a specific purpose; such as, construction improvements not funded by bond proceeds. Formal action to commit funds must occur prior to fiscal year end and can only be modified or removed by the same formal action.

Assigned – amounts that do not require Board approval but are intended to be used for a specific purpose, as determined by an official or body to which the Board has delegated authority per Board Local Policy CE; such as, the Superintendent. These amounts do not meet the criteria to be classified as restricted or committed.

Unassigned – residual amount in the general fund that is available to finance operating expenditures. In other funds, this classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

10. Spending Order

Fund balance amounts that are restricted, committed, or assigned are considered to have been spent when an expenditure is incurred for the respective purpose. If an expenditure is incurred that meets the criteria in more than one fund balance category, the District considers that fund balance is relieved in the following order: restricted, committed, assigned, and then unassigned.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Net Position

In the government-wide financial statements, net position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding debt related to the acquisition of those capital assets. Net Position is reported as restricted when there are limitations imposed in their use by external creditors or grantors. Any remaining net position is considered unrestricted.

12. Accumulated Unpaid Vacation and Sick Pay

Accumulated vacation leave and sick leave considered to have matured and that is expected to be liquidated with expendable available resources is reported as an expenditure and a liability in the General Fund, however, as of June 30, 2017 no liability exists and thus no such provision has been recorded. All vacation pay is accrued when incurred in the government-wide financial statements, and is reported in noncurrent liabilities.

13. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash in banks, investment pool deposits, and securities with maturities of less than three months from the date purchased.

14. Accounting System

In accordance with Texas Education Code, Chapter 44, subchapter A, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Data Control codes refer to the account code structure prescribed by the TEA in the Resource Guide.

15. Unearned Revenue

Unearned revenue accounted for on the balance sheet of the governmental fund relates to excess program grant funds received over that which has been earned.

16. Investments

The District's investments are generally reported at fair value in accordance with GASB Statement No. 72.

17. Estimates

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

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net position

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the Governmental Fund Balance Sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt (excluding internal service fund activity) at the beginning of the year were as follows:

<u>Capital Assets</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation Beginning</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 1,861,247	\$ -	1,861,247	
Buildings and Improvements	332,646,952	94,490,852	238,156,100	
Furniture and Equipment	10,277,190	7,815,779	2,461,411	
Construction in Progress	873,946	-	873,946	
Capital Assets Total	<u>\$ 345,659,335</u>	<u>\$ 102,306,631</u>	<u>\$ 243,352,704</u>	\$ 243,352,704
Deferred Charge on Refunding				\$ 10,729,554
Bonds and Other Debt Payable			\$ 250,003,638	
Compensated Absences			<u>652,620</u>	
Change in Net Position			<u>\$ 250,656,258</u>	<u>\$(250,656,258)</u>
				<u>\$ 3,426,000</u>

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

2. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental funds statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide Statement of Activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment, excluding internal service fund activity, are as follows:

Changes in Capital Assets	Amount	Adjustments to Net Position
Land	\$ 80,000	
Buildings and Improvements	35,318	
Furniture and Equipment	948,991	
Construction in Progress	6,178,549	
Undepreciated costs on asset disposition	(2,991,631)	
Total Capital Outlay	\$ 4,251,227	\$ 4,251,227
 Amortized Deferred Charge on Refunding		 (895,222)
 Debt Payments		
Bonds Principal	\$ 11,510,371	
Other Debt Principal	(40,305)	
Accretion on Capital Appreciation Bonds	(260,836)	
Change in Bond Interest Payable	(489,964)	
Net Change Due to Bond Issuance/ Refunding	3,310,000	
Premium on Bond Issuance	(5,876,101)	
Loss of Refunding	1,838,917	
Amortize Premiums on Bond Issuance	1,752,143	
Amortize Bond Discount	(30,616)	
Total Adjustment to Net Position		11,713,609 \$ 15,069,614

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following:

	Cash and Cash Equivalents	Investments	Total
Deposits:			
Cash on Hand	\$ 4,553	\$ -	\$ 4,553
Demand Accounts	8,626,735	-	8,626,735
Investment Pools	7,576,265	-	7,576,265
Money Market Accounts	9,424,559	-	9,424,559
Certificates of Deposit	-	5,634,449	5,634,449
Commercial Paper	-	38,259,107	38,259,107
Municipal Bonds	-	24,447,510	24,447,510
Agency Bonds	-	33,845,587	33,845,587
Federal Agency Disc. Amortizing	-	9,073,872	9,073,872
Total	<u>\$25,632,112</u>	<u>\$ 111,260,525</u>	<u>\$136,892,637</u>

1. Restricted Assets

The District's restricted assets at June 30, 2017 are comprised of \$12,267 of Money Market funds, 1,699,371 of Coupon Securities and \$374,322 of Municipal Bonds; the restricted assets are to be utilized for the payment of the 2009 Unlimited Tax Qualified School Construction Bonds due in 2024.

2. Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract. Under Texas State law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less an applicable federal depository insurance (FDIC).

At June 30, 2017, the carrying amount of the District's deposits was \$8,626,735 and the bank balance was \$9,493,748. The District's deposits at June 30, 2017 were fully insured by FDIC insurance and/or collateralized with securities pledged to the District in the District's name held at the Bank of New York.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

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

Name of contracted depository bank:	Wells Fargo, Texas
a. The market value of securities and depository bond pledged as of the date of the highest combined balance on deposit was:	\$ 23,170,686
b. The highest combined balance of cash, savings and time deposit accounts amounted to: This occurred on December 14, 2016.	\$ 16,181,923
c. Total amount of FDIC coverage at the time of the highest combined balance was:	\$ 368,780

3. Investments

The District is required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (PFIA) to adopt and implement an investment policy. That policy must address the following areas: safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, investments staff quality and capabilities and bid solicitation preferences for certificates of deposit. State statutes and Board policy authorize the District to invest in the following investment types meeting criteria and eligibility requirements established by Texas Government Code 2256:

- 1) Obligations of, or guaranteed by, governmental entities,
- 2) Certificates of deposit and share certificates,
- 3) Fully collateralized repurchase agreements,
- 4) A securities lending program,
- 5) Bankers acceptances,
- 6) Commercial paper,
- 7) No-load money market mutual funds and no-load mutual funds,
- 8) Guaranteed investment contracts as an investment vehicle for bond proceeds,
- 9) Public funds investment pools.

The PFIA also requires the District to have independent auditors perform procedures related to investment practices as provided by the PFIA. The District is in substantial compliance with the requirements of the PFIA and with local policies.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2017, the District had the following investments:

Investment Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poors or Fitch Rating
Investment Pools:			
TexStar Investment Pool	\$ 234,630	1	AAAM
Lone Star Investment Pool	7,341,635	1	AAA
Money Market Mutual Funds			
Wells Fargo Heritage	9,424,558	1	AAAM
Certificates of Deposit	5,634,449	353	A-
Commercial Paper	38,259,107	85	A-1, M
Municipal Bonds	24,447,509	197	A+, AA+
Agency Bond	38,995,721	341	AA+, AAA
Federal Agency Disc. Amortizing	<u>3,923,738</u>	239	AA+
Total	<u>\$128,261,347</u>		

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 public fund investment pools were created to provide a safe environment for the placement of local government funds in authorized short-term investments. The District's investments in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable asset value of \$1. The book value of the position in the pools is the same as the number of shares in each pool; the market value of a share should approximately equal the book value of a share. Additionally, funds are held in money market funds and commercial paper at Wells Fargo Bank.

Texas Short Term Asset Reserve Fund (TexSTAR) operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexSTAR is governed by a board of directors. JP Morgan Fleming Asset Management, Inc. acts as the investment manager and First Southwest Asset Management, Inc. serves as marketing agent and customer service representative. TexSTAR uses amortized cost rather than fair value to report net assets to compute share prices. TexSTAR participants have daily access to their funds with no penalties on withdrawals.

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.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

The District has investments in the Wells Fargo Heritage Fund. The Funds are money market mutual funds, regulated primarily under SEC's Rule 2a7 of the Investment Company Act of 1940 (the "ACT"). The Funds attempt to stabilize the net asset value ("NAV") of their shares at \$1.00 by valuing the portfolio securities using the amortized cost method; however, there is no guarantee that the NAV will remain at \$1.00 a share.

Credit Risk: In accordance with state law and the District's investment policy, investments in mutual funds and investment pools must be rated at least AAA or AAA-m or have an equivalent rating by at least one nationally recognized rating service such as Standard & Poor's or Moody's Investor Service. Obligations of U.S. agencies may not be rated less than A or its equivalent.

Concentration of Credit Risk: The District places no limit on the amount the District may invest in any one issuer; rather investments are governed by the objectives of preservation and safety of principal, liquidity and yield. In addition, the investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issue.

Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. There are no investments at June 30, requiring concentration of credit risk disclosures.

Interest Rate Risk: State law does not permit investments with maturities greater than (5) years. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the stated maturity of investments to three (3) years from the time of purchase.

Cash and investments on deposit in the Debt Service Fund are pledged to the payment of the bonds and notes payable.

Fair Value Investments: The District measures and records its investments in accordance with GASB Statement No. 72 using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows: Level 1: Quoted prices for identical investments in active markets; Level 2: Observable inputs other than quoted market prices; and, Level 3: Unobservable inputs.

At June 30, 2017, the District had the following recurring fair value measurements:

- Municipal Bonds of \$24,447,509 are valued using quoted market prices (Level 1 inputs)
- Agency Bonds of \$38,995,721 are valued using quoted market prices (Level 1 inputs)
- Federal Agency Disc Amortizing of \$3,923,738 are valued using quoted market prices (Level 1 inputs)
- Restricted Agency Bonds are valued using quoted market prices \$1,699,371 (Level 1 inputs)

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE D – PROPERTY TAXES

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

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of levy. Allowances for uncollectible tax receivables within the general and debt service funds 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.

NOTE E - DUE TO/FROM OTHER FUNDS

Due to/from other funds at June 30, 2017 are expected to be collected within the next year and are as follows:

Fund	Due From	Due To
General Fund	\$ 1,957,479	\$ 1,898,682
Debt Service Fund	354,746	-
Non-Major Special Revenue Funds		
ESEA Title X, Pt.C Homeless	-	3,354
ESEA I, A Improving Basic Program	-	469
ESEA Title I Part C Migrant	-	1,584
IDEA - Part B Formula	-	20,160
IDEA - Part B Preschool	-	6
Career and Technical Basic Grant	-	42,928
Title III, A English Lag. Acquisition	-	149
Title IV, B 21st Century CCLC	-	140,955
GEAR UP	-	54,932
Carol M White Physical Ed. Program	-	98
Innovative Approaches to Literacy	-	7,194
Summer School LEP Program	-	45
Visually Impaired SSVI	-	1,915
High Quality Pre-K Program	-	1,099
Campus Activity Funds	940	14,304
After School Challenge - COSA	-	37,934
PreK4SA	-	46,995
Total Non-Major Special Revenue Funds	940	374,121
Proprietary Fund	-	40,362
Totals	\$ 2,313,165	\$ 2,313,165

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE E - DUE TO/FROM OTHER FUNDS (Continued)

The Due From balance in the General Fund is the result of utilizing a pooled cash account since as funds are expended for Non-Major Special Revenue Funds' benefit, the District will subsequently submit for reimbursement from the granting agencies.

From time to time, grant funds, which are on a reimbursement basis, may experience deficit cash balances. The centralized cash disbursement process will pay for liabilities incurred while reimbursement is received. At June 30, 2017, such cash deficits are recorded as due to other funds.

NOTE F – RECEIVABLES FROM OTHER GOVERNMENTS

The District participates in a variety of local 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, per Capita Programs and the Instructional Facilities and Existing Debt Allotment. Amounts due from state, federal and local governments as of June 30, 2017 are summarized below.

	General Fund	Debt Service Fund	Other Non-Major Funds	Total
State Funds	\$ 2,360,284	\$ -	\$ 27,222	\$ 2,387,506
Federal Grants	78,294	-	1,164,211	1,242,505
Other	1,334	399	159,582	161,315
	<u>\$ 2,439,912</u>	<u>\$ 399</u>	<u>\$ 1,351,015</u>	<u>\$ 3,791,326</u>

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Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE G – CAPITAL ASSETS

Below is a summary of capital asset activity for the year ended June 30, 2017:

Governmental Activities	Balance July 1, 2016	Additions	Deletions or Transfers	Balance June 30, 2017
<u>Capital Assets,</u>				
<u>not being depreciated</u>				
Land	\$ 1,861,247	\$ 80,000	\$ -	\$ 1,941,247
Construction in Progress	873,946	6,178,549	(1,186,100)	5,866,395
Total	<u>2,735,193</u>	<u>6,258,549</u>	<u>(1,186,100)</u>	<u>7,807,642</u>
<u>Capital Assets</u>				
<u>being depreciated</u>				
Buildings and				
Improvements	332,646,952	1,221,418	(5,465,823)	328,402,547
Furniture and Equipment	10,277,190	948,990	(887,990)	10,338,190
Total	<u>342,924,142</u>	<u>2,170,408</u>	<u>(6,353,813)</u>	<u>338,740,737</u>
<u>Less Accumulated Depreciation:</u>				
Buildings and				
Improvements	(94,490,852)	(7,975,740)	2,501,992	(99,964,600)
Furniture and Equipment	(7,815,779)	(614,804)	860,190	(7,570,393)
Total Accumulated Depreciation	<u>(102,306,631)</u>	<u>(8,590,544)</u>	<u>3,362,182</u>	<u>(107,534,993)</u>
Governmental Activities Capital Assets, Net	<u>\$ 243,352,704</u>	<u>\$ (161,587)</u>	<u>\$ (4,177,731)</u>	<u>\$ 239,013,386</u>

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE G – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 5,754,036
Instructional Resources & Media Services	104,801
Curriculum & Staff Development	31,445
Instructional Leadership	4,116
School Leadership	436,025
Guidance, Counseling & Evaluation Services	174,900
Social Work Services	55,956
Health Services	104,951
Student Transportation	237,939
Food Services	443,262
Co-Curricular Activities	395,575
General Administration	17,417
Plant Maintenance & Operations	615,512
Security & Monitoring Services	42,491
Data Processing Services	170,186
Community Services	1,932
Total Depreciation	<u>\$ 8,590,544</u>

NOTE H – RESTRICTED ASSETS

On December 4, 2009 the district issued \$11,990,000 Unlimited Tax Qualified School Construction Bonds Series 2009 (Bonds). The District, in accordance with the bond covenant, created and maintains a “Cumulative Sinking Fund Deposit Account” (CSFDA). On dates specified the District deposits funds into the CSFDA and credits any interest earnings from the deposited funds to apply as a credit against the deposit requirement in the then current fiscal year. Funds credited to the CSFDA shall be applied to pay the principal on the Bonds at maturity or prior redemption. Any money and investments on deposit in the CSFDA are pledged to pay the debt service requirement on the bonds. The amount of \$2,085,959 represents required deposits made and interest earned. The liability account to this amount is the Payable from Restricted Assets.

NOTE I – UNEARNED REVENUES

Unearned revenues for General and Special Revenue funds at June 30, 2017 are comprised of the following:

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned.

	<u>General Fund</u>	<u>Other Non-Major Funds</u>	<u>Total</u>
Commodities Inventory	\$ 24,171	\$ -	\$ 24,171
Other Funds	-	5,236	5,236
Total Unearned Revenue	<u>\$ 24,171</u>	<u>\$ 5,236</u>	<u>\$ 29,407</u>

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE J – DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

Deferred Outflows of Resources represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 (revenues) until that time.

The District reports Deferred Resource Outflows and Deferred Resource Inflows in the Statement of Net Position as of June 30, 2017 as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred Charge for Refunding of Debt	\$ 11,673,249	\$ -
Districts Share of Resources related to TRS Pension	15,740,594	2,908,078
Reported by the District as of June 30, 2017	<u>\$ 27,413,843</u>	<u>\$ 2,908,078</u>

At June 30, 2017, unavailable revenues reported as deferred inflows of resources in the governmental funds were as follows:

	Major Fund		Total Governmental Funds
	General Fund	Debt Service Fund	
Property Taxes Receivable	\$ 3,002,817	\$ 868,467	\$ 3,871,284
Allowance for Uncollectible Taxes	(150,141)	(43,423)	(193,564)
Sixty Day Tax Accrual	(626,827)	(191,941)	(818,768)
Total Deferred Inflows of Resources	<u>\$ 2,225,849</u>	<u>\$ 633,103</u>	<u>\$ 2,858,952</u>

The unavailable revenue of \$2,858,952 relates to uncollected property taxes.

NOTE K – DUE TO OTHER GOVERNMENTS

The District participates in a variety of local and state programs from which it receives grants to partially or fully finance certain activities.

Amounts due to state and local governments as of June 30, 2017 are summarized below:

	General Fund	Debt Service	Other Non- Major Funds	Fiduciary Fund	Total
State	\$ -	\$ 502,393	\$ -	\$ 1,752	\$ 504,145
Other	14,767	-	430	-	15,197
	<u>\$ 14,767</u>	<u>\$ 502,393</u>	<u>\$ 430</u>	<u>\$ 1,752</u>	<u>\$ 519,342</u>

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE L – LONG-TERM DEBT

1. Bonded Debt Payable

The District issues general obligation bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. The bonds are supported by a pledge of the District's full faith and credit. The bond indentures require a levy and collection of taxes without limitation as to rate or amount on all property subject to taxation by the District sufficient in amount to pay the principal and interest on such bonds as they become due. The indentures also require that a debt service fund be created and administered by the District solely for paying principal and interest when due.

Bond indebtedness of the District is reflected in the government-wide financial statements, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

The State of Texas continued funding in 2016 through the Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA) Programs, whereby the District received state funds of \$12,899,190 or approximately 72% of its general obligation annual debt. Although the future funding is subject to future State legislative appropriations, the State statute guarantees IFA state aid for the life of the District's eligible debt as well as for the EDA program which will become part of the baseline budget for the Texas Education Agency. However, in the event that the legislature does not appropriate adequate funds for the IFA and EDA programs, the statute directs the Texas Commissioner of Education to make a transfer from the Foundation School Program (FSP) in an amount sufficient to cover the required payments of the State. This transfer is required by statute and is not subject to the discretion of the Texas Commissioner of Education. This transfer would have the effect of slightly reducing the FSP distributions to all school districts in the State during the fiscal year in which the transfer takes place. Discretion

The District is eligible for approximately 69.3% of state assistance on its annual debt under the IFA and EDA program. The District estimates to receive \$12,172,078 in total State Aid to supplement the total general obligation annual debt for 2017.

Since the District defeased certain School Building Bonds and Unlimited Tax School Building Bonds in prior years by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, the trust account assets and the liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2017, \$51,935,000 of bonds outstanding are considered defeased.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE L – LONG-TERM DEBT (Continued)

Unlimited Tax Refunding Bonds – Series 2016

On December 14, 2016, the District issued the Harlandale Independent School District Unlimited Tax Refunding Bonds, Series 2016 in the amount of \$8,765,000. Proceeds from the sale of the bonds were issued to refund a portion of the Unlimited Tax School Building Bonds, Series 2007 outstanding in the amount of \$9,600,000. Additionally the proceeds are to pay the costs of issuing the bonds. The net proceeds of \$9,797,574 (after premium \$1,228,091, underwriter's discount \$54,439 and cost of issuance \$137,329) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to complete the advance refunding with interest rates of 4.0%.

Although the advance refunding resulted in the recognition of an accounting loss of \$197,574 for the year ended June 30, 2017 which is being amortized through the year 2031; the District's total gross debt service savings was \$1,762,018 with a net present value savings of \$1,412,493.

Unlimited Tax Refunding Bonds – Series 2017 (A)

On February 9, 2017, the District issued the Harlandale Independent School District Unlimited Tax Refunding Bonds, Series 2017 (A) in the amount of \$22,155,000. Proceeds from the sale of the bonds were issued to refund a portion of the Unlimited Tax School Building Bonds, Series 2007 outstanding in the amount of \$24,190,000. Additionally the proceeds are to pay the costs of issuing the bonds. The net proceeds of \$24,723,990 (after premium \$2,870,160, underwriter's discount \$102,762 and cost of issuance \$191,315) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to complete the advance refunding with interest rates of 3.0% to 5.0%.

Although the advance refunding resulted in the recognition of an accounting loss of \$533,990 for the year ended June 30, 2017 which is being amortized through the year 2027; the District's total gross debt service savings was \$2,622,683 with a net present value savings of \$2,284,106.

Unlimited Tax Refunding Bonds – Series 2017 (B)

On February 9, 2017, the District issued the Harlandale Independent School District Unlimited Tax Refunding Bonds, Series 2015 (B) in the amount of \$12,845,000. Proceeds from the sale of the bonds were issued to refund a portion of the Unlimited Tax School Building Bonds, Series 2009 outstanding in the amount of \$13,285,000. Additionally the proceeds are to pay the costs of issuing the bonds. The net proceeds of \$14,392,352 (after premium \$1,777,849, underwriter's discount \$80,035 and cost of issuance \$145,266) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to complete the advance refunding with interest rates of 3.0% to 5.0%.

Although the advance refunding resulted in the recognition of an accounting loss of \$1,107,352 for the year ended June 30, 2017 which is being amortized through the year 2032; the District's total gross debt service savings was \$898,509 with a net present value savings of \$685,253.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE L – LONG-TERM DEBT (Continued)

The following is a summary of bonds payable at June 30, 2017.

Issue Date	Original Amount	Interest Rates	Final Maturity	Outstanding 06/30/17	Due Within One Year
Unlimited Tax School Building Bonds					
2001	\$ 10,178,309	3.00-5.49%	2020	\$ 2,217,866	\$ 710,292
2015	3,445,000	2.00%	2018	2,290,000	1,135,000
Unlimited Tax School Building Bonds (Variable Rate)					
2015	60,820,000	-	2018*	60,820,000	-
Unlimited Tax Refunding Bonds					
2005	31,018,920	3.00-19.90%	2025	103,920	-
2007	37,675,000	4.00-4.75%	2018	60,000	60,000
2009	18,245,000	4.00-5.00%	2034	4,960,000	-
2010	12,035,000	2.00-4.00%	2023	11,765,000	55,000
2011	2,945,000	2.00-4.00%	2031	2,510,000	135,000
2012	8,275,000	3.00-4.25%	2028	8,130,000	-
2012	23,490,000	2.00-5.00%	2027	17,190,000	3,085,000
2013	8,310,000	2.00-5.00%	2031	8,150,000	-
2014	9,025,000	3.00-4.00%	2033	8,945,000	985,000
2015	17,915,000	4.00-5.00%	2040	17,915,000	-
2015 (A)	21,295,000	4.00-5.00%	2035	21,295,000	-
2016	8,590,000	4.00%	2031	8,590,000	-
2017 (A)	22,155,000	3.00-5.00%	2027	22,155,000	2,640,000
2017 (B)	12,845,000	3.00-5.00%	2032	12,845,000	25,000
Unlimited Tax Qualified School Construction Bonds					
2009	<u>11,990,000</u>	2.25%	2026	<u>9,921,000 **</u>	<u>345,000</u>
Totals	<u>\$ 320,252,229</u>			<u>\$ 219,862,786</u>	<u>\$ 9,175,292</u>

* Initial Rate Period

** This amount is net of principal amount deposits
into the Restricted assets interest and sinking fund.

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Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE L – LONG-TERM DEBT (Continued)

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ending June 30,	Total	Principal	Interest
2018	19,709,418	9,175,292	10,534,126
2019	17,580,488	9,133,217	8,447,271
2020	14,129,600	5,948,023	8,181,577
2021	18,275,888	11,026,244	7,249,644
2022	14,721,363	8,205,000	6,516,363
2023-2027	77,832,121	46,525,010	31,307,111
2028-2032	66,692,925	49,525,000	17,167,925
2033-2037	50,674,775	42,575,000	8,099,775
2038-2042	26,461,200	23,710,000	2,751,200
2043-2047	14,615,400	14,040,000	575,400
	<u>\$ 320,693,178</u>	<u>\$ 219,862,786</u>	<u>\$ 100,830,392</u>

There are a number of limitations and restrictions contained in the general obligation bonded debt. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2017.

2. Compensated Absences

Eligible employees of the District accumulate State Leave, District leave and vacation in varying amounts as part of their compensation in accordance with the District’s policy.

Accumulated State leave benefits is not provided as a long term debt since it may be carried by the employee to other districts. It is more probable that the District will not pay the allowable accumulated amount since State leave benefits are reimbursed only if an employee’s separation is due to retirement.

Vacation benefits are required to be taken by June 30 with certain exceptions. In the event of separation, employees are paid for accumulated vacation benefits as specified in policy.

Current policy provides reimbursement of all accrued District local personal leave to employees serving the District at least three consecutive years. Reimbursement is made at the current daily rate paid to non-degreed substitute professionals. Beginning with the 1997-98 school year, accrued District local personal leave reimbursement was limited to a maximum of twenty days. Employees who have accrued more than twenty days prior to the 1997-98 school year shall continue to be eligible for full reimbursement for accrual of local personal leave until they voluntarily depart from the District. Accumulated vacation and personal leave benefits are paid from the general fund and special revenue funds, relative to the personnel paid from these funding sources.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE L – LONG-TERM DEBT (Continued)

3. Changes in Long-term Liabilities

Changes in long-term liabilities of governmental activities for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
General Obligation	\$ 234,683,156	\$43,765,000	\$ (58,585,370)	\$ 219,862,786	\$ 9,175,292
Less Deferred Amounts:					
For Issuance Discounts	(577,441)	-	30,616	(546,825)	-
For Issuance Premiums	13,303,619	5,876,101	(1,752,144)	17,427,576	-
For Accumulated Accretion	2,594,304	-	260,836	2,855,140	-
Total Bonds Payable	250,003,638	49,641,101	(60,046,062)	239,598,677	9,175,292
Compensated Absences	652,620	945,353	(905,048)	692,925	261,151
Total	\$ 250,656,258	\$50,586,454	\$ (60,951,110)	\$ 240,291,602	\$ 9,436,443

4. Operating Leases

The District was in the last year of its non-cancelable lease agreement for copier fleet and print shop services. On November 17, 2014, the District entered into a new seventy-two month, non-cancelable lease agreement for new copier fleet equipment and print shop services which is scheduled to end on December 2021. This lease has been classified as an operating lease and the total lease expense during the current year was \$560,764. The future minimum lease payments are as follows:

Year Ending June 30,	
2018	560,764
2019	560,764
2020	560,764
2021	280,382
Total Future Minimum Lease Payments Due	<u>\$ 1,962,674</u>

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE M – FUND BALANCES

The fund balances as of June 30, 2017 consist of the following amounts:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
Inventory	\$ 448,026	\$ -	\$ -	\$ -	\$ 448,026
Federal State and Other Grants	3,125,306	-	-	-	3,125,306
Capital Acquisition	-	-	12,616,902	-	12,616,902
Retirement of Long Term Debt	-	16,608,025	-	-	16,608,025
Committed	3,241,630	-	-	-	3,241,630
Other Assigned	1,163,687	-	33,614,914	275,804	35,054,405
Unassigned	48,366,840	-	-	-	48,366,840
Total	<u>\$ 56,345,489</u>	<u>\$ 16,608,025</u>	<u>\$ 46,231,816</u>	<u>\$ 275,804</u>	<u>\$ 119,461,134</u>

Restricted fund balance of Federal, State and Other grants reported under the General Fund consists of a fund balance of \$3,125,306 for the federal Child Nutrition program.

The Other Committed fund balance of \$3,241,630 in the General Fund is for facility improvements in subsequent school years.

Other Assigned fund balance in the General Fund is \$1,163,687 for encumbrances at the end of the year related to goods and services ordered but not received. The Capital Projects had \$33,614,914 for encumbrances related to construction. In Other Funds the assigned fund balance of \$275,804 is composed of \$209,489 for Student Activity Funds that is committed specifically for campus use at the respective site and \$66,315 from local grants. Thus comprising a total of \$35,054,405.

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Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE N – REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

Revenues from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total Governmental Funds	Internal Service Fund
Property Taxes	\$ 16,685,574	\$ 4,988,453	\$ -	\$ -	\$ 21,674,027	\$ -
Penalties and Interest	226,380	200,223	-	-	426,603	-
Tuition and Fees	221,417	-	-	-	221,417	-
Investment Income *	316,230	85,880	420,992	377	823,479	-
Food Sales	395,377	-	-	-	395,377	-
Co Curricular Student Activities	377,233	-	-	556,729	933,962	-
Gifts and Bequests	-	-	-	87,330	87,330	-
Other Revenue	730,691	-	-	875,674	1,606,365	-
Worker's Compensation Program	-	-	-	-	-	725,393
	<u>\$ 18,952,902</u>	<u>\$ 5,274,556</u>	<u>\$ 420,992</u>	<u>\$ 1,520,110</u>	<u>\$ 26,168,560</u>	<u>\$ 725,393</u>

* The District measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. The District's investment practice is to buy and hold its portfolio which uses its investments to fund upcoming liabilities. Therefore, any loss between the cost of the investment and the market value is an "unrealized loss" due to market fluctuations as rates rise and is to be offset against the actual interest earned for the year.

NOTE O - GENERAL FUND FEDERAL REVENUES

For the year ended June 30, 2017, revenues from federal programs included in the General Fund consisted of the following:

Program or Source	CFDA Number	Amount
National School Breakfast Program	10.553	\$ 4,465,786
National School Lunch Program	10.555	6,515,632
Commodity Supplemental Food Program	10.565	331,855
Fresh Fruit and Vegetable Program	10.582	76,235
Junior ROTC Program	12.unknown	107,979
School Health & Related Services Program	N/A	2,408,660
Medicaid Administrative Claiming Program	93.778	80,041
Indirect Costs		
IDEA B, Part B Preschool	84.173A	46
Gear Up	84.334S	42,065
Carol White Physical E Program	84.215F	5,849
Innovative Approach to Literacy	84.215G	3,178
Total		<u>\$ 14,037,326</u>

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

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

Harlandale Independent School District
 NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Harlandale ISD 2017 Employer Contributions	3,604,420
Harlandale ISD 2017 Member Contributions	7,998,228
Harlandale ISD 2016 NECE On-behalf Contributions	4,795,553

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

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

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.

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

**Includes Inflation of 2.5%*

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

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

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

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

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 66,628,402	\$ 43,050,972	\$ 23,052,545

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

At June 30, 2017, the District reported a liability of \$43,050,972 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$	43,050,972
State's proportionate share that is associated with the District		56,922,470
Total	\$	99,973,442

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.001139260803% which is a decrease of 0.0000638342% from its proportion measured as of August 31, 2015.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

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

Actuarial Methods & Policies

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

For the year ended June 30, 2017, the District recognized pension expense of \$5,907,195 and revenue of \$5,907,195 for support provided by the State in the Government Wide Statement of Activities.

At June 30, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 675,031	\$ 1,285,477
Changes in actuarial assumptions	1,312,116	1,193,316
Differences between projected and actual investment earnings	3,645,467	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	7,076,131	429,285
Contributions paid to TRS subsequent to the measurement date	3,031,849	-
Total	\$ 15,740,594	\$ 2,908,078

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

Year Ended August 31:	Pension Expense Amount
2018	1,706,663
2019	1,706,663
2020	4,031,920
2021	1,528,008
2022	835,788
Thereafter	(8,373)
Total	\$ 9,800,669

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE P – DEFINED BENEFIT PENSION PLAN (Continued)

Medicare Part D

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled \$291,439, \$302,672 and \$304,793 for years 2015, 2016 and 2017 respectively. Revenue and expenditures equal to the amount paid by the federal government on behalf of the District, were recognized during the 2017 fiscal year.

NOTE Q - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage for each of the past three fiscal years and insurance coverage remains the same as in the prior year.

The District established a limited risk management fund (an internal service fund) program for workers' compensation on November 1, 1990. Effective September 1, 2003 an excess coverage insurance policy covers individual claims in excess of \$400,000, for any one event up to a maximum of \$1,000,000. In the current fiscal year, there were no claims exceeding the self-insured retention of \$400,000. All funds of the District make payments to the Self-Insurance Fund based on an actuarial estimate of the amounts needed to pay claims.

The claims liability of \$254,000 at June 30, 2017 was actuarially determined based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10, as amended by GASB Statement No. 30 and includes provisions for the following: a.) reserve for unpaid incurred claims, b.) reserve for unreported claims, and c.) claims recoverable from reinsurance. The carrying amount of the liability is presented at the nominal value since there are no contractual obligations to be paid on fixed or determinable rates and is reported in accrued expenses in the Statement of Net Position.

A reconciliation of changes in the accrued expenses amount for the prior and current year is presented below:

	Beginning of Fiscal Year Accrued Expenses	Current Year Claims and Changes in Estimates	Claim Payments	Ending of Fiscal Year Accrued Expenses
2015-2016	\$ 341,100	\$ 295,305	\$ 298,405	\$ 338,000
2016-2017	338,000	287,530	371,530	254,000

The claims liability is considered a current liability based on previous claims payment history.

Harlandale Independent School District

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

NOTE R – HEALTH CARE COVERAGE

At June 30, 2017, 2,276 employees of the District were eligible for the employee benefits health plan. TRS-qualified insurance plan participants were 1,665. The District paid premiums of \$256.50 from July 2016 through December 2016 and \$275.00 from January 2017 through June 2017 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed health providers. Total health plan premiums expensed during the year, were \$5,437,271.

NOTE S – SHARED SERVICES ARRANGEMENTS

The District is a member district in a Regional Day School Program for the Deaf which is considered a Shared Services Arrangement (SSA). The fiscal agent for the SSA is South San Independent School District. All SSA services are provided by the fiscal agent with funds provided by member districts. According to guidance provided in the SSA Section of the TEA's Resource Guide, the District has accounted for the funds provided to the fiscal agent in function 93 using Model 3. The amount provided to the fiscal agent during the current year was \$87,565, which was equal to the District's share of expenditures. The District has neither a joint ownership interest in capital assets purchased by the fiscal agent, nor a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District.

NOTE T – RELATED ORGANIZATIONS

The Harlandale Education Foundation (the "Foundation"), a not-for-profit entity which was organized to provide scholarship funds, is a "related organization" of the District as defined by Governmental Accounting Standards Board Statement No. 61. The members of the Foundation Board are comprised of appointees by the District's Board and high school principals.

NOTE U – CONTINGENCIES AND COMMITMENTS

1. Legal Proceedings

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgment of the District's management, the outcome of any present legal proceedings will not have any material adverse effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

2. State and Federal Grant Programs

The District participates in numerous State and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 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 financial statements for such contingencies.

Harlandale Independent School District
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2017

NOTE U – CONTINGENCIES AND COMMITMENTS (Continued)

As discussed in note A.4, encumbrance accounting is utilized to ensure budgetary control and accountability. At June 30, 2017, the amount of encumbrances expected to be executed in the subsequent year are as follows:

General Fund	\$1,163,687
Capital Projects	33,614,914

3. Construction Commitments

At June 30, 2017, there were outstanding commitments in the amount of \$32,481,811 for facilities construction contracts.

NOTE V – EXTRAORDINARY ITEM

The district had been involved in litigation with Trane America LLC, for the last several years. The school board voted on February 2, 2017 to accept a confidential settlement agreement and release document that completely resolved this case. The net value of the settlement that the District received was \$9,225,641 and is reported in the Capital Projects Fund. The District believes that the agreement adequately and fairly addresses the issues involved in the dispute.

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APPENDIX D

BOND COUNSEL'S ORIGINAL OPINION

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AUG 27 2015

FINAL

IN REGARD to the authorization and issuance of the “Harlandale Independent School District Variable Rate Unlimited Tax School Building Bonds, Series 2015” (the *Bonds*), dated August 15, 2015, in the aggregate original principal amount of \$60,820,000, we have reviewed the legality and validity of the issuance thereof by the Harlandale Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only and have a Stated Maturity of August 15, 2045, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the applicable redemption provisions. The Bonds bear interest on the unpaid principal amount from the date of their delivery to the initial purchaser through the end of the Initial Rate Period (as defined in the order authorizing the issuance of the Bonds (the *Order*)), at the rate per annum stated in the Order, and such interest is payable on the dates described in the Order to the registered owners shown on the registration books of the Paying Agent/Registrar on the Record Date (stated on the face of the Bonds).

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the 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

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "HARLANDALE INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015"

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

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

WE CALL YOUR ATTENTION TO THE FACT that, with respect to our opinion in clause (2) above, interest on all tax-exempt obligations, such as the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a mutual fund, a financial asset securitization investment trust, a real estate mortgage investment conduit, or a real estate investment trust. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION herein on the excludability from gross income for federal income tax purposes of any action taken under the Order which requires that the Issuer shall have received an opinion of counsel nationally recognized in the field of municipal finance to the effect that such action will not adversely affect the excludability of the interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes. The Order provides that prior to taking certain actions, including converting the interest rate on the Bonds from one rate mode to another rate mode, the Issuer must have received such an opinion.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “HARLANDALE INDEPENDENT SCHOOL DISTRICT VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2015”

companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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


Norton Rose Fulbright US LLP

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