REMARKETING - NOT A NEW ISSUE
BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings: Fitch: "AAA"/"AA"
Moody's: "Aaa"/"Aa2"
PSF Guaranteed
(See "OTHER PERTINENT INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

REMARKETING MEMORANDUM
Dated June 26, 2018

In the Original Opinion (defined herein) of Bond Counsel (defined herein), Bond Counsel rendered opinions which assumed continuing compliance by the District (defined herein) after the initial delivery of the Bonds (defined herein) with certain covenants contained in the Order (defined herein) and subject to the matters set forth under "TAX MATTERS" herein, that 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 individuals or, except as described herein, corporations. See "TAX MATTERS" herein. The delivery of the Bonds upon their remarketing is subject to the delivery by Bond Counsel of an opinion to the effect that the conversion of the Bonds to a Fixed Rate Period (hereinafter defined), during which time such Bonds will bear interest at Fixed Rates (hereinafter defined), as described herein, will not adversely affect the excludability of interest on the Bonds for federal income tax purposes. Bond Counsel has not been asked to and has not rendered any opinion as to the current excludability of interest on the Bonds. See "TAX MATTERS" herein.

$40,850,000
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX REFUNDING BONDS, SERIES 2014B
(FIXED RATE CONVERSION, EFFECTIVE AUGUST 1, 2018)

Dated Date: August 15, 2014
(Interest accrues from August 1, 2018)

Due: August 1, as shown herein

The San Antonio Independent School District (the "District" or the "Issuer") has heretofore issued, and there currently remain outstanding, its Variable Rate Unlimited Tax Refunding Bonds, Series 2014B (the "Bonds"), pursuant to an order adopted on June 9, 2014 (as amended by the applicable provisions of the hereinafter-defined Remarketing Order; such authorizing order, as amended, the "Order") by the District's Board of Trustees (the "Board") and initially delivered on September 18, 2014. The Bonds are currently in an Initial Rate Period, bearing interest at an Initial Rate, expiring on July 31, 2018. The Bonds are currently outstanding in the aggregate principal amount of $46,560,000. On August 1, 2018, $850,000 in principal amount will be redeemed pursuant to mandatory redemption provisions applicable thereto, and the remaining $45,710,000 will be subject to mandatory tender without right of retention. Tendered Bonds in the principal amount of $4,860,000 will be retired by the District using proceeds derived from the remarketing that is the subject of this Remarketing Memorandum and the balance of $40,850,000 will be converted to a Fixed Rate Period (for the duration of which such Bonds will bear interest at Fixed Rates), remarketed to new holders and remain outstanding subsequent to this remarketing and conversion until the earlier of stated maturity or prior redemption.

On the Fixed Rate Conversion Date, being August 1, 2018, all outstanding Bonds will be subject to mandatory tender without right of retention and, from such date, the Bonds that thereafter remain outstanding will bear interest at a Fixed Rate for each maturity until stated maturity or prior redemption thereof. At conversion, the maturity dates and amounts for the Bonds will be established. The principal amounts and maturities of the Bonds following the conversion to a Fixed Rate are shown on page 2 of this Remarketing Memorandum. Following this conversion, the Bonds maturing on and after August 1, 2026 will be subject to optional redemption at par, plus accrued interest through the date of redemption, on August 1, 2025 or any date thereafter.

The Bonds were issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and the Order, and are direct obligations of the District, payable from a continuing direct annual ad valorem tax levied pursuant to the District's tax authority, without legal limit as to rate or amount, on all taxable property within the District, all as provided in the Order (see "THE BONDS - Authority for Issuance and Conversion"). Payment of regularly scheduled debt is guaranteed by the Texas Permanent School Fund under the Guarantee Program (defined herein). The conversion of the Bonds to a Fixed Rate Period is being accomplished pursuant to the provisions of the Order, as well as the provisions of the order relating to the Bonds (providing for this conversion to a Fixed Rate Period) adopted by the Board on April 16, 2018 (the "Remarketing Order"). In the Remarketing Order and as permitted by the Act, the Board delegated to certain District officials the authority to approve certain final terms of the Bonds and to execute a certificate of conversion (the "Approval Certificate") evidencing the final terms of remarketing of the Bonds. The Approval Certificate was executed by an authorized District official on June 26, 2018.

Interest on the Bonds during the Fixed Rate Period will accrue at the applicable Fixed Rates from the Fixed Rate Conversion Date, will be payable on February 1 and August 1 of each year, commencing February 1, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only 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 integral multiples thereof. 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 (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The Paying Agent/Registrar for the Bonds is ZB, National Association dba Amegy Bank, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

In close proximity to the conversion of the Bonds to a Fixed Rate Period, the District plans to issue its $178,975,000 Unlimited Tax School Building Bonds, Series 2018 on July 25, 2018.

Proceeds from the sale of the Bonds were originally used for the purposes of (i) refunding certain maturities of the District's then-outstanding commercial paper notes to restore capacity for the then-active District's Commercial Paper Program; and (ii) paying the costs of issuance of the Bonds.

CUSIP PREFIX: 796269
SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, REDEMPTION PROVISIONS AND CUSIP NUMBERS FOR THE BONDS

The Bonds, upon the initial issuance thereof, were approved as to legality by the Attorney General of the State of Texas and as to certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas ("Bond Counsel"). Bond Counsel will approve certain legal matters relating to the conversion of the Bonds to a Fixed Rate Period as required by the Order. The remarketing of the Bonds, as described herein, will be undertaken by the syndicate of banks serving as remarketing agents identified below (the "Remarketing Agents"). Certain matters will be passed upon for the Remarketing Agents by Norton Rose Fulbright US LLP, San Antonio, Texas and Kassahn & Ortiz, P.C., San Antonio, Texas as Co-Counsel to the Remarketing Agents. It is expected that the Bonds will be available for delivery as Bonds bearing interest at Fixed Rates through the services of DTC on August 1, 2018.

J.P. MORGAN

RAYMOND JAMES **PIPER JAFFRAY & CO.**

$40,850,000
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX REFUNDING BONDS, SERIES 2014B
(FIXED RATE CONVERSION, EFFECTIVE AUGUST 1, 2018)

STATED MATURITY SCHEDULE

CUSIP No. Prefix 796269[1]

$26,430,000 SERIAL BONDS

Stated Maturity	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix[1]
8/1/2019	$810,000	4.000%	1.540%	YE2
8/1/2020	840,000	5.000%	1.710%	YF9
8/1/2021	880,000	5.000%	1.880%	YG7
8/1/2022	925,000	5.000%	2.000%	YH5
8/1/2023	970,000	5.000%	2.140%	YJ1
8/1/2024	1,020,000	5.000%	2.280%	YK8
8/1/2025	1,070,000	5.000%	2.400%	YL6
8/1/2026	1,125,000	5.000%	2.490%[2]	YM4
8/1/2027	1,180,000	5.000%	2.570%[2]	YN2
8/1/2028	1,240,000	5.000%	2.630%[2]	YP7
8/1/2029	1,300,000	5.000%	2.670%[2]	YQ5
8/1/2030	1,365,000	5.000%	2.710%[2]	YR3
8/1/2031	1,435,000	5.000%	2.740%[2]	YS1
8/1/2032	1,505,000	5.000%	2.780%[2]	YT9
8/1/2033	1,585,000	5.000%	2.840%[2]	YU6
8/1/2034	1,660,000	5.000%	2.890%[2]	YV4
8/1/2035	1,745,000	5.000%	2.940%[2]	YW2
8/1/2036	1,830,000	5.000%	2.980%[2]	YX0
8/1/2037	1,925,000	5.000%	3.000%[2]	YY8
8/1/2038	2,020,000	5.000%	3.020%[2]	YZ5

$14,420,000 TERM BONDS

$14,420,000 5.000% Term Bond due August 1, 2044 and priced to yield 3.120%[2] – CUSIP Suffix ZA9

Interest on the Bonds during the Fixed Rate Period will accrue from August 1, 2018, the Fixed Rate Conversion Date, at the Fixed Rates shown above. The Issuer reserves the right to redeem the Bonds maturing on or after August 1, 2026 (in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds – Optional Redemption of the Bonds" herein.) The Bonds maturing on August 1, 2044 (the “Term Bonds”) are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions of the Bonds - Mandatory Redemption of the Bonds" herein.)

[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 Remarketing Agents, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

[2]Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2025, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to such redemption date.

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
141 Lavaca Street
San Antonio, Texas 78210
Phone: (210) 554-2200
Facsimile: (210) 228-3171

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Ms. Patti Radle President	6	2019	Volunteer Director
Mr. Arthur V. Valdez Vice President	4	2021	Aircraft Systems Engineer
Ms. Debra Guerrero Secretary	5	2021	Multifamily Residential Developer
Mr. Steve Lecholop Board Member	4	2021	Attorney
Mr. James Howard Board Member	19	2019	Employee Relations Specialist
Ms. Christina Martinez Board Member	1	2019	Vice President of External Relations
Mr. Ed Garza Board Member	8	2021	Urban Planning and Development Consultant

ADMINISTRATION

Name	Position	Length of Service (years)
Mr. Pedro Martinez	Superintendent	2
Dr. Matthew Weber	Deputy Superintendent, Talent Management	3
Dr. Pauline Dow	Deputy Superintendent of Schools	9 months
Mr. Larry A. Garza	Associate Superintendent, Financial Services & Business Operations/ Chief Financial Officer	31
Ms. Toni Thompson	Associate Superintendent, Human Resources	37
Mr. Willie T. Burroughs	Chief Operations Officer	1
Mr. Mohammed A. Choudhury	Chief Innovation Officer	1
Ms. Tiffany Grant	Chief of Staff	8
Ms. Lisa Riggs	Associate Superintendent, Academics	2
Mr. Kamal ElHabr	Associate Superintendent, Facilities Services	22
Mr. Sean Mullen	Director, Cash and Treasury Management	1
Ms. Dorothy Carreon	Director, Planning and Budget	7

Bond Counsel .... Escamilla & Poneck, LLP
San Antonio, Texas

Certified Public Accountants .... Garza/Gonzalez & Associates
San Antonio, Texas

Financial Advisor .... Frost Bank Capital Markets Division
San Antonio, Texas

For Additional Information Please Contact:

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Mr. Randy Moshier
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USE OF INFORMATION IN THE REMARKETING MEMORANDUM

No dealer, broker, salesman, or other person has been authorized to give any 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 Issuer or the Remarketing Agents. This Remarketing Memorandum is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Remarketing Memorandum nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

The agreements of the District and others related to the Bonds are contained solely in the 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 purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE REMARKETING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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 Texas Education Agency ("TEA") described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," as such information has been provided by DTC and TEA, respectively.

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 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 or completeness of such information.

TABLE OF CONTENTS

The cover page, subsequent pages hereof, and appendices attached hereto, and any addenda, supplement or amendment hereto, are part of this Remarketing Memorandum.

SELECTED DATA FROM THE REMARKETING MEMORANDUM

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

The Issuer	The San Antonio Independent School District (the "District" or the "Issuer") is a political subdivision of the State of Texas (the "State"), located in central Bexar County, Texas. The District includes most of the City of San Antonio's (the "City") downtown and metropolitan areas inside Loop 410 and I-35. The City's estimated 2017 population was 1,432,006. Industries include finance, retail and wholesale distribution, manufacturing, and medicine. Located inside the District are five shopping malls, two breweries, the Riverwalk, and Brooks City Base. The District's 2017 estimated population was 340,391. The Issuer was created under State statute and is governed by an elected seven-member Board of Trustees (the "Board") of which each member serves a staggered four-year term, with elections being held in May of every odd numbered year. (See "APPENDIX B - General Information Regarding the San Antonio Independent School District, the City of San Antonio, Texas and Bexar County, Texas" herein.)
The Bonds	The Bonds were issued by the District pursuant to the Constitution and the general laws of the State of Texas, including, Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and an order (as amended by the applicable provisions of the hereinafter-defined Remarketing Order; such authorizing order, as amended, the "Order") adopted by the Board of the District on June 9, 2014. The Bonds are currently in an Initial Rate Period, bearing interest at an Initial Rate, expiring on July 31, 2018. The conversion of the Bonds to a Fixed Rate Period is being accomplished pursuant to the provisions of the Order, as well as the provisions of an order relating to the Bonds and providing for a conversion to a Fixed Rate Period, adopted by the Board on April 16, 2018 (the "Remarketing Order"). In the Remarketing Order and as permitted by the Act, the Board delegated to certain District officials the authority to approve certain final terms of the Bonds and to execute a certificate of conversion (the "Approval Certificate") evidencing the final terms of the remarketing of the Bonds. The Approval Certificate was executed by an authorized District official on June 26, 2018. Interest on the Bonds during the Fixed Rate Period will accrue at the applicable Fixed Rates from the Fixed Rate Conversion Date, with such interest payable on February 1 and August 1 in each year, commencing February 1, 2019, until stated maturity or prior redemption. (See "THE BONDS – General Description" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Houston, Texas.
Security	The Bonds are direct obligations of the Issuer and are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. Additionally, the payment of the principal of, premium, if any, and interest on the Bonds is guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined). (See "THE BONDS - Security for Payment" and "THE BONDS – Permanent School Fund Guarantee" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in Texas law affecting the financing of school districts in Texas.
Redemption Provisions of the Bonds	Following the conversion of the Bonds to a Fixed Rate, the Issuer reserves the right to redeem the Bonds maturing on or after August 1, 2026 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. (See "THE BONDS - Redemption Provisions of the Bonds – Optional Redemption of the Bonds" herein.) The Bonds maturing on August 1, 2044 are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE BONDS – Redemption Provisions of the Bonds - Mandatory Redemption of the Bonds" herein.)

Tax Matters	In the Original Opinion (hereinafter defined) Bond Counsel rendered opinions which assumed continuing compliance by the Issuer after the date of initial delivery of the Bonds described herein with certain covenants contained in the Order and subject to the matters set forth under "TAX MATTERS" herein that 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 individuals or, except as described herein, corporations. The delivery of the Bonds upon the conversion to Fixed Rates is subject to the opinion of Bond Counsel to the effect that the conversion of the Bonds to a Fixed Rate Period during which those Bonds bear interest at Fixed Rates as described herein will not adversely affect the excludability of interest on the Bonds for federal income tax purposes. (See "TAX MATTERS" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds were originally used for the purposes of (i) refunding certain maturities of the District's then-outstanding commercial paper notes to restore capacity for the then-active District's Commercial Paper Program; and (ii) paying the costs of issuance of the Bonds.
Ratings	At the time of initial issuance, the Bonds were rated "AAA" by Fitch Ratings, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's") and 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 "AA" by Fitch and "Aa2" by Moody's. Fitch and Moody's have, in conjunction with the remarketing that is the subject of this Remarketing Memorandum, affirmed the unenhanced ratings on the Bonds. (See "OTHER PERTINENT INFORMATION – Ratings" herein).
Book-Entry-Only System	Definitive Bonds in the Fixed Rate Period will be initially registered and delivered only 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 principal amount with respect to the Bonds or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. The principal of, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Payment Record	The District has never defaulted on the payment of its ad valorem tax supported indebtedness.
Future Bond Issues	Except for the conversion of the Bonds to a Fixed Rate Period and the issuance of the District's $178,975,000 Unlimited Tax School Building Bonds, Series 2018 on July 25, 2018, the District does not anticipate the issuance of additional ad valorem tax supported debt in the next twelve months, except potentially refunding bonds for debt service savings.
Settlement Date	Anticipated settlement on August 1, 2018.
Legality	Settlement of the Bonds is subject to the rendering of an opinion concerning certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel.

(Remainder of this page intentionally left blank.)

REMARKETING MEMORANDUM
relating to

$40,850,000
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Bexar County, Texas)
VARIABLE RATE UNLIMITED TAX REFUNDING BONDS, SERIES 2014B
(FIXED RATE CONVERSION, EFFECTIVE AUGUST 1, 2018)

INTRODUCTORY STATEMENT

This Remarketing Memorandum provides certain information in connection with the Fixed Rate Conversion by the San Antonio Independent School District (the "District" or "Issuer") of its Variable Rate Unlimited Tax Refunding Bonds, Series 2014B (the "Bonds"), originally issued and now outstanding pursuant to an order adopted on June 9, 2014 (as amended by the applicable provisions of the hereinafter-defined Remarketing Order; such authorizing order, as amended, the "Order") by the District's Board of Trustees (the "Board") and initially delivered on September 18, 2014. The Bonds are currently in an Initial Rate Mode, bearing interest at an Initial Rate, expiring on July 31, 2018. The Bonds are currently outstanding in the aggregate principal amount of $46,560,000. On August 1, 2018, $850,000 in principal amount will be redeemed pursuant to mandatory redemption provisions applicable thereto and the remaining $45,710,000 will be subject to mandatory tender without right of retention. Tendered Bonds in the principal amount of $4,860,000 will be retired by the District using proceeds derived from the remarketing that is the subject of this Remarketing Memorandum and the balance of $40,850,000 will be converted to a Fixed Rate Period (for the duration of which the Bonds will bear interest at Fixed Rates), remarketed to new holders and remain outstanding subsequent to this remarketing and conversion until the earlier of stated maturity or prior redemption.

The Issuer is a body corporate and a political subdivision of the State of Texas (the "State") duly organized and existing under the laws of the State. The Bonds were issued by the District pursuant to the Constitution and general laws of the State, Chapters 1207 and 1371, as amended, Texas Government Code (together, the "Act"), and the Order. The conversion of the Bonds to a Fixed Rate Period is being accomplished pursuant to the provisions of the Order, as well as the provisions of the order relating to the Bonds (providing for this conversion to a Fixed Rate Period) adopted by the Board on April 16, 2018 (the "Remarketing Order"). In the Remarketing Order and as permitted by the Act, the Board delegated to certain District officials the authority to approve certain final terms of the Bonds and to execute a certificate of conversion (the "Approval Certificate") evidencing the final terms of remarketing of the Bonds. The Approval Certificate was executed by an authorized District official on June 26, 2018.

With respect to descriptions herein that apply to Bonds subsequent to the hereinafter-defined Fixed Rate Conversion, references to "Bond" or "Bonds" shall mean those Bonds that remain outstanding in the Fixed Rate Period and bearing interest at Fixed Rates, as this Remarketing Memorandum is intended to only describe the Bonds as they exist after their conversion to a Fixed Rate Period. Unless otherwise indicated, capitalized terms used in this Remarketing Memorandum have the same meanings assigned to such terms in the Order. Included in this Remarketing Memorandum are descriptions of the Bonds and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT***. Copies of such documents may be obtained from the Issuer or the Financial Advisor (defined below), by electronic mail or upon payment of reasonable mailing, handling, and delivery charges.

This Remarketing Memorandum speaks only as to its date, and the information contained herein is subject to change. A copy of the Remarketing Memorandum will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

THE BONDS

General Description

Conversion to Serialized Maturities. At the time of conversion to Fixed Rates, the Bonds will also be converted from a single term Bond to the maturities indicated on page 2 hereof; see "THE BONDS – Redemption Provisions of the Bonds".

Authorized Denominations. On and after the Fixed Rate Conversion Date, the Bonds will be outstanding in denominations of $5,000 or any integral multiple thereof.

Calculation of Interest; Interest Payment Dates. Interest on the Bonds is calculated on the basis of a 360-day year of twelve 30- day months. Interest accruing on the Bonds at the Fixed Rate will be paid on each February 1 and August 1 commencing February 1, 2019.

Interest Payment Methods. Interest 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 requested by and at the risk and expense of the Owner.

Book-Entry System of Registration and Payment. The Bonds are issued and outstanding as Book-Entry-Only securities through The Depository Trust Company ("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."

Paying Agent/Registrar. The Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees 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.

Tender Agent. ZB, National Association dba Amegy Bank, Houston, Texas, will serve as the tender agent (the "Tender Agent"), for the mandatory tender of the Bonds on August 1, 2018. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to ZB, National Association dba Amegy Bank, Attention: Ms. Ashley Hunt, 1801 Main Street, Houston, Texas 77002. Upon Fixed Rate Conversion of the Bonds, the District will no longer maintain a Tender Agent.

Remarketing Agent and Remarketing Agreement. J.P. Morgan Securities LLC, as representative of a syndicate of banks identified on the front cover of this Remarketing Memorandum, has been appointed to serve as the Remarketing Agent (as defined in the Order) for the remarketing of the Bonds into the Fixed Rate Period. The office of J.P. Morgan Securities LLC for purposes of its duties as Remarketing Agent is 200 E. Basse Road, San Antonio, Texas 78209. After remarketing the Bonds into the Fixed Rate Period, the District is not required to, and in fact will not, engage or maintain a Remarketing Agent.

Pursuant to, and subject to the terms and conditions of, the Remarketing Agreement, between the District and the Remarketing Agent for the Bonds in connection with the remarketing of the Bonds into the Fixed Rate Period, the Remarketing Agent has agreed to provide firm financial arrangements for such remarketing of Bonds. For this service, the Remarketing Agent will be compensated as described herein under the subcaption "OTHER PERTINENT INFORMATION – Remarketing". The Remarketing Agreement between the District and the Remarketing Agent will terminate upon the successful settlement of the Bonds in the Fixed Rate Period.

Authority for Issuance and Conversion

The Bonds were issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the general laws of the State, including the Act, and the Order.

The conversion of the Bonds to a Fixed Rate Period (the "Fixed Rate Conversion") is being accomplished pursuant to the provisions of the Order, as well as the provisions of the Remarketing Order.

In the Remarketing Order and as permitted by the Act, the Board delegated to certain District officials the authority to approve certain final terms of the Bonds and to execute the Approval Certificate evidencing the final terms of the remarketing of the Bonds. The Approval Certificate was executed by an authorized District official on June 26, 2018.

The Remarketing Order will effectuate amendments to the original Board order authorizing the issuance of the Bonds, which provisions are effective to the Bonds in the Fixed Rate Period. The descriptions of the Bonds herein while in the Fixed Rate Period are reflective of the effectiveness of these amendments.

See "THE BONDS – Conversion to Fixed Rates" herein for more information concerning the conversion of the Bonds to a Fixed Rate Period.

Security for Payment

The Bonds are payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. Additionally, the Bonds are guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined). (See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.) See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" for a discussion of recent developments in State law affecting the financing of school districts in the State.

Permanent School Fund Guarantee

In connection with the initial sale and delivery of the Bonds, the District received approval from the Texas Education Agency for a guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). As a result, scheduled debt service payments on the Bonds are absolutely and unconditionally guaranteed by the corpus of the Texas Permanent School Fund. In the event of default in payment of interest on or principal of the Bonds by the District, registered owners will receive all payments due from the corpus of the Texas Permanent School Fund. Defeasance of the Bonds will cancel the Texas Permanent School Fund Guarantee with respect thereto.

Redemption Provisions of the Bonds

Optional Redemption of the Bonds. The District reserves the right, at its option, to redeem the Bonds, after conversion to Fixed Rates, having stated maturity dates on or after August 1, 2026, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 1, 2025, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption of the Bonds. The Bonds maturing on August 1, 2044 (the "Term Bonds") are also subject to mandatory redemption prior to stated maturity in part and by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, in the respective years and principal amounts shown below:

$14,420,000 Term Bond Maturing on August 1, 2044

Mandatory Redemption Dates (August 1)	Principal Amount
2039	$2,120,000
2040	2,225,000
2041	2,340,000
2042	2,455,000
2043	2,575,000
2044 (Maturity)	2,705,000

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory sinking fund redemption provisions shall be reduced, at the option of the Issuer, by the principal amount of any Term Bonds of such Stated Maturity which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the Issuer 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 Issuer with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above.

If less than all of the Bonds of any maturity are to be redeemed, the District shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select by lot the Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than thirty (30) days prior to an optional redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL 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 WILL CEASE TO ACCRUE.

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

The District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners of Bonds. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

Redemption through The Depository Trust Company

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

Legality

The Bonds, upon the initial issuance thereof, were approved as to legality by the Attorney General of the State. The conversion of the Bonds to the Fixed Rate Period is subject to the delivery of an opinion of Escamilla & Poneck, LLP, Bond Counsel, to the Paying Agent/Registrar to the effect that the conversion of the Bonds to a Fixed Rate Period, during which time such Bonds bear interest at Fixed Rates, will not adversely affect the excludability of interest on the Bonds for federal income tax purposes. Bond Counsel has not been asked to and has not rendered any current opinion as to the current excludability of interest on the Bonds. The converted Bonds will be available for delivery as Bonds bearing interest at Fixed Rates through the services of DTC on August 1, 2018.

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax supported indebtedness.

Mandatory Tender

The Bonds that are currently outstanding and being remarketed and converted to a Fixed Rate Period are required to be tendered for purchase to the Tender Agent on the Fixed Rate Conversion Date as described below under “Conversion to Fixed Rate”. Owners of Bonds shall not have the right to elect to retain Bonds on the Fixed Rate Conversion Date. Any Bonds not delivered to the Tender Agent for purchase on the Fixed Rate Conversion Date shall be deemed tendered on such date and after such date Owners will not be entitled to any payment (including interest to accrue subsequent to the Fixed Rate Conversion Date) other than the par amount thereof, plus accrued but unpaid interest thereon to the date of purchase (the “Purchase Price”) for such undelivered Bonds and such undelivered Bonds shall no longer be entitled to the benefits of the Order.

Conversion to Fixed Rate

The Order provides that at the option of the District the Bonds bearing interest at the Initial Rate may be converted in whole or in part to a Fixed Rate or Rates on any Interest Payment Date after conclusion of the Initial Rate Period. In the event of a partial conversion, the Paying Agent/Registrar shall select by lot or other customary random method the Bonds to be converted to a Fixed Rate. Solely and exclusively with respect to the Remarketing Agent’s setting of Fixed Rates on the Bonds to be converted on the Fixed Rate Conversion Date, the Remarketing Agent, in coordination with the District, determined the rates for such converted Bonds that cause such Bonds to have a market value, net of costs of issuance and remarketing fees, at least equal to the principal amount of the Bonds. The District is converting all outstanding Bonds (after taking into account the mandatory redemption of $850,000 in principal amount and retirement of additional principal Bonds in the amount of $4,860,000 on August 1, 2018) to Bonds bearing interest at Fixed Rates.

To exercise its option, the District must deliver to the Paying Agent/Registrar, the Remarketing Agent, 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 Bonds converted to a Fixed Rate on a Fixed Rate Conversion Date shall mature, be subject to redemption and have the same terms and features (other than the right of Owners to tender their Bonds for purchase) as set forth in the Order (and are additionally set forth on page 2 of this Remarketing Memorandum). The District is exercising its rights under these Order provisions in the effectuation of the Fixed Rate Conversion that is the subject of this Remarketing Memorandum. In addition, the District must deliver to the Paying Agent/Registrar prior to the Fixed Rate Mode Conversion Date an opinion of nationally recognized bond counsel to the effect that the conversion to the Fixed Rate Mode is authorized under the provisions of the Order and will not adversely affect the exclusion of interest on the Bonds from gross income of the owners thereof for federal income tax purposes.

The Paying Agent/Registrar is required, and the District has instructed the Paying Agent/Registrar to give notice by mail to all Owners of the conversion to a Fixed Rate Period 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 dates by which the District will determine and the Paying Agent/Registrar will notify the Owners of the Fixed Rates; (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, and (c) specify the redemption provisions and other terms applicable to the Bonds after the Fixed Rate Conversion Date.

The Remarketing Agent, in consultation and with the approval of the District, determined the Fixed Rate or Rates and will give notice thereof to the Paying Agent/Registrar. The Paying Agent/Registrar will then give notice of such Fixed Rate or Rates by first class mail to the Tender Agent and the Owners of the Bonds.

After the Fixed Rate Conversion Date, the Owners of converted Bonds will have no right to tender their Bonds for purchase.

The Remarketing Order specifies the terms by which the Bonds will be remarketed in a Fixed Rate Period. As permitted in the Order, and pursuant to authority granted by the Act, the District has, in the Remarketing Order, delegated authority to certain designated District officials to finalize certain characteristics of the Bonds while they bear interest at Fixed Rates, evidenced in the executed Approval Certificate (which Approval Certificate was executed by a duly authorized District official on June 26, 2018). These characteristics include, but are not limited to, the following:

1. The determination of the specific principal amounts of Fixed Rate serial or term maturities, with respect to the Bonds; and

2. The determination of the optional redemption provisions with respect to the Bonds.

Pursuant to the Remarketing Order, the District approved the conversion of the Bonds to a Fixed Rate Period, as determined by the Remarketing Agent in accordance with the applicable provisions of the Order and the Remarketing Order, and directed that the Paying Agent/Registrar give notice of such Fixed Rates, as provided in the Order. The stated maturities of the Bonds and the Fixed Rate for each maturity are set forth on the inside cover page of this Remarketing Memorandum.

Amendments

The District may amend the Order without the consent of or notice to any registered owner in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of the Bonds required to be held by registered owners for consent to any such amendment, addition, or rescission.

Notwithstanding the foregoing, pursuant to the terms of the Order, the District may amend or supplement the Order without notice to or the consent of any Owner (a) to modify the Order or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statue in at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States; (b) to authorize different denominations and to make correlative amendments and modifications to the Order regarding exchangeability of the Bonds of different authorized denominations, redemptions of portions of the Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; (c) to provide for an uncertificated system for registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds; (d) to make any change to the Order affecting the Bonds when all such Bonds have been tendered to the Remarketing Agent pursuant to the terms of the Bonds, but have not been remarketed following such tender; provided however, that the Remarketing Agent has received notice of such amendment or supplement; and (e) effective upon any Conversion Date to a new Rate Period to make any amendment affecting only the Bonds being converted.

Use of Bond Proceeds

Proceeds from the sale of the Bonds were originally used for the purposes of (i) refunding certain maturities of the District's then-outstanding commercial paper notes to restore capacity for the then-active District's Commercial Paper Program; and (ii) paying the costs of issuance of the Bonds.

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REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the registered owners, including but not limited to, their prospective ability to be repaid in accordance with the Order, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The remedy 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 registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance and Conversion"), 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, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 registered owners of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit judicial discretion.

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REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Houston, Texas (the "Paying Agent/Registrar"). The converted Bonds are being issued in fully registered form in integral multiples of $5,000 of principal amount. If the Bonds are no longer held in the Book-Entry-Only System, interest on the Bonds will be payable semiannually by the Paying Agent/Registrar by check mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books on the Record Date.

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

Successor Paying Agent/Registrar

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

Future Registration

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

Record Date For Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar will be required to issue, transfer, or exchange any Bonds during a (i) period beginning at the close of business on any Record Date and ending with the next interest payment date or, (ii) with respect to any Bond called for redemption, within 30 days of the date fixed for redemption, provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

Replacement 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 substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the paying agent or an authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Governmental Obligations (defined below), certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for such Bonds, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment; provided, however, that in the event of a gross defeasance, no certification by an independent accounting firm of the sufficiency of deposits shall be required but instead such deposit shall be certified by the District's financial advisor, the paying agent/registrar for the bonds, or another qualified third party. The District has additionally reserved the right in the Order, subject to satisfying the requirements of (1) and (2) above, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

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

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

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

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BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of 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 Agent believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical 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 within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on 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 securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment 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 Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates for each maturity of the Bonds are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates for each maturity of the Bonds will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Remarketing Memorandum

In reading this Remarketing Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, 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.

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the State Permanent School Fund and the Guarantee Program (defined below) has been provided by the Texas Education Agency (the "TEA") and is not guaranteed as to accuracy or completeness by, and is not construed as a representation by the District, the Financial Advisor, or the Remarketing Agent.

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 exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

For a variety of reasons, each change in asset allocation for the Fund, including the 2016 modifications, have been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified. At August 31, 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 rollback of 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.

The Charter District Bond Guarantee Program

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

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

As of February 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 and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See "OTHER PERTINENT INFORMATION - Ratings" herein.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
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.

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Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
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]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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.

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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, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

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

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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 Chapters 41 through 46 of the Texas Education Code, 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. 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 "TAX RATE LIMITATIONS – 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 a. a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index", b. district-size adjustments for small and mid-size districts, and c. 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 the 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 (i) $100,000 or (ii) $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 a. $40 or a greater amount for any year provided by appropriation; or b. 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 a. the district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or b. 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 a. establish a Financial Hardship Transition Program, which provides grants (“Hardship Grants”) to those districts which were heavily reliant on ASATR funding, and b. 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 c. $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 d. $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 Chapter 41 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.

POSSIBLE EFFECTS OF WEALTH TRANSFER PROVISIONS ON THE DISTRICT'S FINANCIAL CONDITION

The District's wealth per student for the 2017-2018 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 equalize 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 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.

CURRENT DISTRICT FINANCIAL CONDITION AND INITIATIVES

The District has previously experienced a decline in student enrollment and attendance that contributed to a revenue decrease. The District is addressing this situation through various strategies. Although the District has experienced a decline in State revenue, the District will end the 2017/2018 Fiscal Year with an estimated General Fund balance of $97.8 million (which is essentially the same ending balance as the prior year). During the 2017/2018 school year, the District initiated a Parent Engagement Program to work with students and families to increase engagement and attendance. This includes a parent and family liaison at each campus, as well as student engagement facilitators from the District's administrative central office that reach out to students and parents to encourage their attendance. The District continues to strategically re-open closed campuses and expand instructional offerings to incentivize students from within and from outside of the District boundaries to join the District. A tuition-based program is also available to eligible students in the Pre-K instructional area.

The District is continuing its efforts on improving student achievement at several campuses that are not achieving at an acceptable level. In accordance with TEA regulations, the District has opted to develop and implement partnerships with Charter Management Operators ("CMOs") under Senate Bill 1882 of the 85th Legislative Session ("SB 1882") to enhance the instructional opportunities for District students. Specifically, New York-based CMO Democracy Prep Public Schools, Inc., a not-for-profit corporation ("Democracy Prep") will partner with Stewart Elementary to assist in improving student achievement to begin in the 2018/2019 school year. In addition, Highland High School will partner with CMO Texas Can Academies, a not-for-profit corporation to provide educational support for 250 students out of the school's 1,727 student population. SB 1882 will provide additional funding per student to the District upon finalization and implementation of requisite agreements. The number of partnerships may expand as additional opportunities within the District may arise to improve student achievement and increase total student population.

See "OTHER PERTINENT INFORMATION – *Alliance v. Pedro Martinez, et al.*" for a description of ongoing litigation regarding the District's execution of the contract with Democracy Prep.

The District is working to address a projected $31 million revenue decline as a result of a decline in student enrollment for fiscal year ending June 30, 2018 and a projected decline of student enrollment for fiscal year ending June 30, 2019. By aligning staff with the projected student enrollment, implementing various cost savings strategies, and, as mentioned above, partnering with CMOs and other innovative school models, the District is projecting to cover the $31 million revenue decline by applying cost reduction measures. See "APPENDIX A - Table 12A General Fund Revenue and Expenditure History" herein.

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INVESTMENT POLICIES

Investments

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

Investment Authority and Investment Practices of the District

Under Texas 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 or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (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; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits or; (ii) where the funds are invested by the District through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the District; (iii) 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; (iv) 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 (v) the District appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) 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 have a defined termination date, are secured by a combination of cash and obligations described in clause (1) 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 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, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; (iv) a loan made under the program allows for termination at any time; (v) 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 (8) above; and (vi) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by SEC Rule 2a-7; and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance 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 the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the qualified representative of a business organization 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 activities, and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (6) 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, (7) restrict the investment in non-money market mutual funds in the aggregate 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, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, 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* **TABLE 1**

As of March 31, 2018, the Issuer had investable funds in the amount of $264,023,924.23 invested in the following categories of investment:

Type of Investment	Amount
Investment Pools	$196,503,712.22
Money Market Funds	43,713,180.14
Deutsche Bank Flex	18,616,882.96
Frost Bank	4,662,004.61
Bank Accounts	528,144.30
Total	$264,023,924.23

**Unaudited.*

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

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the Issuer

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 Issuer. Principal categories of exempt property (including certain exemptions which are subject to local option by the Board) 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 non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and wind-powered energy devices; most individually owned automobiles; $10,000 State mandated exemption to residential homesteads of persons ages 65 or over or disabled; a State mandated exemption up to a maximum of $12,000 for real or personal property of disabled veterans or the surviving spouse or children of an individual who died while on active duty in the armed forces; a State mandated $25,000 in market value exemption for all residential homesteads (see "Residential Homestead Exemptions" below); 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 on the residence homestead of persons 65 years of age or older or disabled persons above the amount of tax imposed in the year such residence qualified for an exemption based on age of the owner.

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. Also, a surviving spouse of a deceased spouse who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the deceased spouse died and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and the property remains the residence homestead of the surviving spouse.

Pursuant to a constitutional amendment approved by the voters on May 12, 2007, legislation was enacted to reduce the school property tax limitation imposed by the freeze on taxes paid on residence homesteads of persons 65 years of age or over or of disabled persons to correspond to reductions in local school district tax rates from the 2005 tax year to the 2006 tax year and from the 2006 tax year to the 2007 tax year (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" herein.) The school property tax limitation provided by the constitutional amendment and enabling legislation apply to the 2007 and subsequent tax years. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit."

"Goods-in-transit" is defined by the Tax Code as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year and to continue to tax those goods-in-transit until the action authorizing such taxation is rescinded or repealed. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for tangible personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires that the governmental entities take affirmative action on or after October 1, 2011 but prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit in the 2012 tax year and beyond. The District took affirmative action on or after October 1, 2011 but prior to January 1, 2012, to continue its taxation of goods-in-transit in the 2012 tax year and beyond.

A city or a county may create a tax increment financing district ("TIF") within the city or county, as applicable, with defined boundaries and establish a base value of taxable property in the TIF at the time of its creation. Overlapping taxing units, including school districts, may agree with the city or the county to contribute all or part of future ad valorem taxes levied and collected against the "incremental value" (taxable value in excess of the base value) of taxable real property in the TIF to pay or finance the costs of certain public improvements in the TIF, and such taxes levied and collected for and on behalf of the TIF are not available for general use by such contributing taxing units. Prior to September 1, 2001, school districts were allowed to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The school district in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Effective September 1, 2001, school districts may not enter into tax abatement agreements under the general statute that permits 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 TIF created after May 31, 1999 (except in certain limited circumstances where the municipality creating the TIF 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 TIF and the TIF 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 certain school districts to grant limitations on appraised property values and provide ad valorem tax credits to certain corporations and limited liability companies to encourage economic development within the district. Generally, during the last eight years of the ten-year term of a tax limitation agreement, the school district may only levy and collect ad valorem taxes for maintenance and operation purposes on the agreed-to limited appraised property value. The taxpayer is entitled to a tax credit from the school district for the amount of taxes imposed during the first two years of the tax limitation agreement on the appraised value of the property above the agreed-to limited value. Additional State funding is provided to a school district for each year of such tax limitation in the amount of the tax credit provided to the taxpayer. During the first two years of a tax limitation agreement, the school district may not adopt a tax rate that exceeds the district's rollback tax rate. (See "TAX RATE LIMITATIONS – 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. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised, plus (c) the market value of all new improvements to the property. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and 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 assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as manuals specifying the appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year by the United States Energy Information Administration in the price adjustment factor calculations. State law further requires the appraised value of a residence homestead to be assed 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.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) 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 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, 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 appraised 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 Exemptions

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

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

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

Section 11.131 of the 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, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, 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. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

Following the approval by the voters at a November 5, 2013 statewide election, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization.

Also approved by the November 5, 2013 election was a constitutional amendment providing that 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.

In addition to any other exemptions provided by the Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled, if a residence is donated by a charitable organization, to an exemption equal to the percentage of the veteran's disability, 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 donation as of the date the donation is made.

Following the approval by the voters at a November 7, 2017 statewide election (and effective as of January 1, 2018), 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 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 governing body of a political subdivision is prohibited from repealing or reducing the amount of 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.

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 Tax Code.

Levy and Collection of Taxes

Property within the District is assessed as of January 1 of each year; taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments are not permitted. Discounts are not permitted.

The District is responsible for the collections of its taxes, unless it elects to transfer such functions to another governmental entity. By the later of September 30, or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation is 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 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 upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights, or by bankruptcy proceedings, which restrict the collection of taxpayer debts.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Bexar County, Texas.

The Appraisal District is governed by a board of six directors appointed by members of the governing bodies of various political subdivisions within Bexar County.

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

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

The District does not collect its own taxes; the District's taxes are collected by the Bexar County Tax Collector (the "Tax Assessor/Collector").

The District does allow split payments of taxes but does not give discounts for early payment of taxes.

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

The District does not grant any tax abatements.

The District does not tax freeport goods as provided by Texas Tax Code Section 11.251.

The District taxes goods-in-transit as provided by Texas Tax Code Section 11.253.

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

The District grants an additional State mandated $10,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District grants an additional State mandated residence homestead exemption for disabled veterans ranging from $5,000 to $12,000.

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

Date	Cumulative Penalty	Cumulative Interest[b]	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32[a]	6	38

(a) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.

(b) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

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. 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 January 27, 1968 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended ("Article 2784e-1").

Article 2784e-1 limits the District's annual M&O tax rate based upon a comparison between the District's outstanding bonded indebtedness and the District's taxable assessed value per $100 of assessed valuation. Article 2784e-1 provides for a reduction of $0.10 for each one percent (1%) or major fraction thereof increase in bonded indebtedness beyond seven percent (7%) of assessed valuation of property in the District. This limitation is capped when the District's bonded indebtedness is ten percent (10%) (or greater) of the District's assessed valuation which would result in an annual M&O tax rate not to exceed $1.20. Lastly, the Texas Attorney General in reviewing the District's transcript of proceedings will allow the District to reduce the amount of its outstanding bonded indebtedness by the amount of funds (on a percentage basis) that the District receives in State assistance for the repayment of this bonded indebtedness (for example, if the District anticipates that it will pay 75% of its bonded indebtedness from State assistance, for the purposes of Article 2784e-1, the Texas Attorney General will assume that only 25% of the District's bonded indebtedness is outstanding and payable from local ad valorem taxes). The bonded indebtedness of the District after the issuance of the Bonds will be approximately 4.95% of the District's current taxable assessed valuation of property. See "APPENDIX A - Table 1 Assessed Valuation" herein.

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, or such lower rate as described in the preceding paragraph, 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 "TAX RATE LIMITATIONS - 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 "THE BONDS - Security for Payment").

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

Tax Liens

Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from 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.**

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. For the 2007-08 fiscal year and thereafter, 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 increase 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 - Overview" for a description of the "State Compression Percentage.") If for the preceding tax year a district adopted an M&O tax rate that was less than its effective M&O tax rate for that preceding tax year, the district's rollback tax for the current year is calculated as if the district had adopted an M&O tax rate for the preceding tax year equal to its effective M&O 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 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 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. A district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

DEBT LIMITATIONS

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

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TAX MATTERS

Escamilla & Poneck, LLP, San Antonio, Texas ("Bond Counsel") stated in an opinion dated September 18, 2014 (the "Original Opinion") that, as of such date, interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. The statute, regulations, rulings, and court decisions on which such opinion was based are subject to change. A form of Bond Counsel's Original Opinion appears in APPENDIX C hereto.

The Original Opinion noted that interest on all tax-exempt obligations, including 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 qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). 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. Pursuant to Public Law No. 115-97 (i.e., The Tax Cuts and Jobs Act), for tax years beginning after December 31, 2017, the corporate alternative minimum tax is repealed.

The Original Opinion assumed continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds, 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 of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owner thereof for federal income taxes from the date of the issuance of the Bonds.

The delivery of the Bonds upon the Fixed Rate Conversion Date is subject to an opinion of Bond Counsel (the "Remarketing Opinion") delivered to the Paying Agent/Registrar to the effect that conversion of the Bonds to a Fixed Rate Period during which such Bonds will bear interest at Fixed Rates as described herein will not adversely affect the excludability of interest on the Bonds for federal income tax purposes.

Bond Counsel has not been asked to undertake and is not undertaking any review or investigation of and has not been asked to express and does not express any opinion concerning the current and continuing treatment of the interest on the Bonds as excludable from gross income for federal income tax purposes, except in regards to the no adverse effect opinion described above.

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

However, such accrued interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by section 55 of the Code, tax on corporations for tax years that began before January 1, 2018 and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax, consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

Tax Accounting Treatment of Premium Bonds

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

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

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CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB through its Electronic Municipal Market Access ("EMMA") system, when it will be available to the general public, free of charge at www.emma.msrb.com.

Annual Reports

The District will file certain updated financial information and operating data with the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX A (Tables 1-13) and in APPENDIX D. The District will update and provide this information within six months after the end of each Fiscal Year ending in or after 2018.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"); as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information 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 D 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 following the end of its fiscal 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 federal income 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) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material. Neither the Bonds nor the Order makes 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 provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB.

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

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (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 the Rule 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 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

During the last five years, the District has, on a continuing basis, complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

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LEGAL MATTERS

Legal Opinions

At the time of the original delivery of the Bonds, the District furnished a complete transcript of proceedings incident to the authorization and sale of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds 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 legal opinion of Bond Counsel with respect to the delivery of the Bonds, which opinion is attached to this Remarketing Memorandum as Appendix C.

Though it represents the Financial Advisor and the Remarketing Agent from time to time in unrelated matters, Bond Counsel was engaged by and only represents the District in connection with 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 Bond Counsel for services rendered in connection with this remarketing and conversion of the Bonds is contingent on the remarketing and delivery of the converted Bonds as Bonds bearing interest at Fixed Rates. The legal opinion will accompany the definitive remarketing 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 remarketing 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 said Bonds was also furnished. Certain matters were passed upon for the Remarketing Agent in connection with the remarketing of the Bonds by their counsel, Norton Rose Fulbright US LLP and Kassahn & Ortiz, P.C., each of San Antonio, Texas, whose fee is contingent upon the settlement of the remarketing of the Bonds. Though they represent the Financial Advisor from time to time in matters unrelated to the Bonds, counsels to the Remarketing Agent were engaged by, and only represent, the Remarketing Agent in connection with the remarketing of the Bonds.

The various legal opinions previously delivered and to be delivered concurrently with the delivery of the Bonds and Fixed Rate Conversion 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.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. (See "OTHER PERTINENT INFORMATION - Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to 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.

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OTHER PERTINENT INFORMATION

Alliance v. Pedro Martinez, et al.

On May 4, 2018, the San Antonio Alliance of Teachers and Support Personnel (the "Alliance") filed suit against the District's Superintendent and Board, in their official capacities, seeking injunctive and declaratory relief to void a contract between the District and Democracy Prep to operate and manage Stewart Elementary School pursuant to Section 11.174(a)(2) of the Texas Education Code. See "CURRENT DISTRICT FINANCIAL CONDITION AND INITIATIVES" herein. More specifically, the Alliance alleged that the District did not "consult" with Stewart Elementary School's staff prior to the Board's March 19, 2018 approval of the proposed contract between the District and Co-Defendant Democracy Prep per Section 11.174(c), Texas Education Code, as amended (containing the "consult" provision).

Subsequently, the District's Superintendent and Board (and Co-Defendant Democracy Prep) filed Pleas to the Jurisdiction seeking to have the Alliance's lawsuit dismissed. On Friday, June 1, 2018, a Bexar County State District Court heard the matter and denied the Alliance the temporary injunction and declaratory relief sought by their lawsuit. At the same time, however, the trial court denied the Defendants' Pleas to the Jurisdiction to have the suit dismissed.

After the hearing, the Board instructed its counsel to appeal the trial court's denial of the Plea to the Jurisdiction to have the lawsuit dismissed. On June 22, 2018, the District filed its Notice of Appeal. The appeal was perfected and is now pending in the Fourth Court of Appeals of the State of Texas.

The Alliance seeks no monetary damages and attorney fees of less than $100,000. The District disputes the claims alleged by the Alliance in its lawsuit and intends to vigorously defend itself; however, no prediction can be made as to the outcome of this matter. The District believes that if this matter is decided adversely to the District, it would have no material adverse effect on the District's financial position or the District's ability to issue and deliver the Bonds.

Examination of Outstanding Bonds by Internal Revenue Service

The District received a notice from the Internal Revenue Service (the "Service"), dated May 11, 2018 that it's Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy-Build America Bonds) (the "2010B Bonds") were selected by the Service to confirm compliance with federal tax law. The examination of the 2010B Bonds is ongoing. To date, the District has submitted information to the Service in compliance with the notice. The District anticipates continuing to fully comply with the requests of the Service made during the course of this examination.

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Bonds have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

Ratings

At the time of initial issuance, the Bonds were rated "AAA" by Fitch Ratings, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's") 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 "AA" by Fitch and "Aa2" by Moody's. Fitch and Moody's have, in connection with the remarketing that is the subject of this Remarketing Memorandum, affirmed the unenhanced rating on the Bonds.

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 such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

Authenticity of Financial Information

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

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Remarketing Memorandum for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Financial Advisor

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

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

Forward Looking Statements

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

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

Remarketing

The Remarketing Agent has agreed, subject to certain conditions, to purchase the Bonds from the District at the prices indicated on the inside front cover page hereof, and no accrued interest for a fee of $203,924.40. The Remarketing Agent's obligation is subject to certain conditions precedent, and they are obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than the public offering prices, and such public prices may be changed from time to time by the Remarketing Agent.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

J.P. Morgan Securities LLC ("JPMS") entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase the remarketed Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Conflict of Interest Disclosures

The Remarketing Agent and 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 Agent and respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Issuer 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 Issuer.

Authorization of the Remarketing Memorandum

The Remarketing Order authorized an Authorized Representative to approve the form and content of this Remarketing Memorandum and any addenda, supplement or amendment thereto and authorized its execution by an Authorized Representative for further use in the reoffering of the Bonds by the Remarketing Agent 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.

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

/s/ Mr. Larry A. Garza
Authorized Representative

APPENDIX A

Financial Information for the San Antonio Independent School District

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FINANCIAL INFORMATION OF THE ISSUER

VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT — TABLE 1

2017/18 Market Valuation Established by Bexar County Tax Assessor-Collector[1] (excluding exempt property)		$22,226,630,448
Less Exemptions/Reductions at 100% Market Value:		
State Homestead Exemption	$1,125,452,681	
Local Homestead Exemption	208,635,710	
State Over-65 Exemption	213,054,187	
Surviving Spouse Exemption	3,013,096	
State Disabled Exemption	24,854,297	
Total Veteran Exemption	21,940,549	
Veteran Surviving Spouse Exemption	3,563,711	
Veteran Exemption	65,512,278	
Prorated Exemption	1,855,928,987	
HB 366	49,718	
Freeport Exemption	161,499,636	
Pollution Control	12,405,672	
Leased Vehicles	40,318,260	
Personal Use Vehicles	198,850	
Homestead Cap	588,391,569	$4,324,819,201
2017/18 Net Taxable Assessed Valuation		$17,901,811,247

Note: The above figures were taken from the Bexar County Tax Assessor-Collector's Office which is compiled during the initial phase of the tax year and are subject to change.

(1) Certification as of September 30, 2017.

Debt Payable from Ad Valorem Taxes as of May 31, 2018

General Obligation Debt Outstanding:

Unlimited Tax Debt:	
Unlimited Tax Refunding Bonds, Series 2006	$319,988
Unlimited Tax School Building Bonds Taxable, Series 2010B (Direct Subsidy - Build America Bonds)	136,290,000
Unlimited Tax Refunding Bonds, Series 2011	66,360,000
Unlimited Tax Qualified School Construction Bonds Taxable, Series 2011 (Direct Subsidy)	39,545,000
Variable Rate Unlimited Tax Refunding Bonds, Series 2014A	42,195,000
Unlimited Tax School Building and Refunding Bonds, Series 2015	258,910,000
Unlimited Tax School Building and Refunding Bonds, Series 2016	122,995,000
The Bonds[1]	40,850,000
Unlimited Tax School Building Bonds, Series 2018[2]	178,975,000
Total Unlimited Tax Debt[1]	$886,439,988
Total General Obligation Debt[1]	$886,439,988
Less: Instructional Facilities Allotment/Existing Debt Allotment[3]	0
Net Debt Payable from General Obligation Debt	$886,439,988
General Obligation Interest and Sinking Fund Balance as of June 30, 2017	$87,240,312
2017/18 Net Taxable Assessed Valuation	$17,901,811,247
Ratio of Total General Obligation Debt to 2017 Net Taxable Assessed Valuation[3]	4.95%
Ratio of Net General Obligation Debt to 2017 Net Taxable Assessed Valuation	4.95%

(1) Represents the par amount of Bonds to be outstanding subsequent to the conversion of the Fixed Rate Period after the reduction in principal amount of the Bonds (including a scheduled mandatory redemption).

(2) Anticipated to be issued on July 25, 2018.

(3) Assumes that the District will no longer receive Instructional Facilities Allotments or Existing Debt Allotments after 2017-2018 School Year.

Area of District:	75 Square Miles
2017 Population:	340,391
Per Capita 2017 Net Assessed Valuation:	$52,592
Per Capita 2017 General Obligation Debt:	$2,604

TAXABLE ASSESSED VALUATION BY CATEGORY **TABLE 2**

	Taxable Appraised Value for Fiscal Year Ended June 30,			
	2018		2017	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$7,895,290,887	42.20%	$7,276,826,229	42.07%
Real, Residential, Multi-Family	1,511,223,922	8.08%	1,304,421,560	7.54%
Real, Vacant Lots/Tracts	269,135,131	1.44%	213,874,007	1.24%
Qualified Open-Space Land	9,721,786	0.05%	8,376,099	0.05%
Improvements on Qualified Open Space	17,461	0.00%	13,910	0.00%
Rural Land (Non Qualified Open Space)	12,741,317	0.07%	13,043,957	0.08%
Real, Commercial	6,054,452,318	32.36%	5,717,830,157	33.06%
Real, Industrial and Manufacturing	404,378,871	2.16%	315,725,439	1.83%
Oil & Gas	26,947	0.00%	30,230	0.00%
Real and Tangible Personal, Utilities	242,369,059	1.30%	234,126,785	1.35%
Tangible Personal, Commercial	1,723,403,817	9.21%	1,620,063,206	9.37%
Tangible Personal, Industrial & Manufacturing	511,786,233	2.74%	521,728,746	3.02%
Mobile Homes	4,665,230	0.02%	3,741,760	0.02%
Residential Inventory	40,201,339	0.21%	31,041,380	0.18%
Special Inventory Tax	31,742,710	0.17%	34,616,660	0.20%
Total Appraised Value Before Exemptions	$18,711,157,028	100.00%	$17,295,460,125	100.00%
Less:				
Homestead Exemption Loss	$1,271,108,661		$1,097,995,198	
Over-65/Surviving Spouse Exemption	210,023,507		206,814,403	
Disability/Disabled Surviving Spouse Exemption	23,629,414		24,439,770	
Disabled Veterans/Surviving Spouse Exemption	20,855,557		21,026,676	
Disabled Veterans/Surviving Spouse Homestead Exemption	63,989,070		53,207,950	
Members Armed Services Surviving Spouse Exemption	64,417		56,288	
Freeport Exemption	156,926,626		147,432,858	
Pollution Control	12,405,672		9,556,200	
Productivity Loss	9,581,586		8,235,319	
10% Cap Loss	565,472,771		468,687,591	
Net Taxable Assessed Value	$16,377,099,747 (1)		$15,258,007,872	

	Taxable Appraised Value for Fiscal Year Ended June 30,					
	2016		2015		2014	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$6,709,365,700	39.81%	$5,759,557,060	39.46%	$5,530,480,940	39.61%
Real, Residential, Multi-Family	1,189,791,042	7.06%	946,322,578	6.48%	837,259,312	6.00%
Real, Vacant Lots/Tracts	229,330,067	1.36%	186,231,751	1.28%	198,051,550	1.42%
Rural Land (Non Qualified Open Space)	26,774,352	0.16%	24,904,041	0.17%	27,135,623	0.19%
Real, Commercial & Industrial	6,143,401,418	36.45%	5,239,303,640	35.90%	4,942,157,418	35.40%
Real and Tangible Personal, Utilities	232,557,380	1.38%	189,322,434	1.30%	188,784,133	1.35%
Tangible Personal, Commercial	2,227,427,645	13.22%	2,139,023,047	14.66%	1,728,118,353	12.38%
Tangible Personal, Industrial and Manufacturing	3,973,440	0.02%	5,213,890	0.04%	373,264,192	2.67%
Other	92,647,330	0.55%	105,790,443	0.72%	137,206,896	0.98%
Total Appraised Value Before Exemptions	$16,855,268,374	100.00%	$14,595,668,884	100.00%	$13,962,458,417	100.00%
Less: Total Exemptions/Reductions	2,341,586,128		2,260,024,444		2,260,024,444	
Taxable Assessed Value	$14,513,682,246		$12,335,644,440		$11,702,433,973	

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 Appraisal District updates records.

(1) Certification as of July 22, 2017.

VALUATION AND TAX SUPPORTED DEBT HISTORY — TABLE 3

Tax Year	Fiscal Year Ended	Estimated Population[1]	Net Taxable Assessed Valuation[2]	Net Taxable Assessed Valuation Per Capita	Net Tax Supported Debt Outstanding	Ratio of Net Tax Supported Debt to Taxable Assessed Valuation	Net Tax Supported Debt Per Capita
2013	2014	313,018	$12,737,897,528	$40,694	$520,371,984	4.09%	1,662
2014	2015	317,879	13,324,011,635	41,915	593,963,813 [3]	4.46% [3]	1,869 [3]
2015	2016	337,249	14,797,210,947	43,876	537,824,677 [4]	3.63% [4]	1,595 [4]
2016	2017	340,391	16,592,753,459	48,746	663,469,069 [5]	4.00% [5]	1,949 [5]
2017	2018	340,391	17,901,811,247 [6]	52,592	886,439,988 [7]	4.95% [7]	2,604 [7]

[1] Source: District's Comprehensive Annual Financial Report for the Years Ended 2013 through 2017. Fiscal Year Ended 2018 population held constant for purposes of illustration and Fiscal Year Ended 2017 population provided by the District.
[2] As reported by the Bexar Appraisal District on District's annual certified totals; subject to change during the ensuing year.
[3] Excludes $155,121,175 or 28.229% of the currently outstanding unlimited tax bonds which are supported by the IFA, as provided by Chapter 46, and the EDA, as provided by Chapter 46.
[4] Excludes $165,600,311 or 23.542% of the currently outstanding unlimited tax bonds which are supported by the IFA, as provided by Chapter 46, and the EDA, as provided by Chapter 46.
[5] Excludes $102,110,918 or 13.34% of the currently outstanding unlimited tax bonds which are supported by the IFA, as provided by Chapter 46, and the EDA, as provided by Chapter 46.
[6] Source: Bexar County Tax Assessor-Collector's Office. Certification as of September 30, 2017.
[7] Assumes that the District will no longer receive IFA or EDA after 2017-2018 School Year.

TAX RATE, LEVY AND COLLECTION HISTORY — TABLE 4

Tax Year	Fiscal Year Ended	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2013	2014	$1.35760	$1.04000	$0.31760	$167,272,944	93.65%	98.10%
2014	2015	1.38260	1.04000	0.34260	178,229,513	94.33%	98.44%
2015	2016	1.38260	1.04000	0.34260	197,651,284	94.49%	98.52%
2016	2017	1.51260	1.17000 [1]	0.34260	240,851,460	94.24%	97.85%
2017	2018	1.53260	1.17000	0.36260	263,640,021	93.03% [2]	96.57% [2]

[1] The levy of a $1.17 tax rate for maintenance and operations was approved by the voters in the District at a tax ratification election held on November 8, 2016 ("SAISD TRE").
[2] Unaudited, as of March 31, 2018.

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TOP TEN TAXPAYERS **TABLE 5**

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
H.E.B. Grocery Company LP	Grocery Stores	$307,508,304	1.72%
Marriot Hotel Prop II LP	Hotel	176,679,000	0.99%
VHS San Antonio Partners LP	Medical	162,464,880	0.91%
Hotel Investments LP	Hotel	158,350,000	0.88%
New Rivercenter Mall II LP	Retail	135,260,900	0.76%
Southwestern Bell Telephone	Utility	132,700,755	0.74%
Methodist Healthcare System	Medical	105,173,982	0.59%
H.E. San Antonio I LLC	Real Estate	93,500,000	0.52%
CP/IPERS Griffin Texas Tower LLC	Real Estate	88,000,000	0.49%
New Rivercenter Mall LP	Retail	87,004,230	0.49%
		$1,446,642,051	8.08%

Source: The Bexar Appraisal District.

TAX ADEQUACY **TABLE 6**

Principal and Interest Requirements for the Period Ended August 31, 2018	$66,100,258
Less: Estimated Instructional Facilities Allotment	(363,453)
Less: Estimated Existing Debt Allotment	(160,878)
Less: Transfer from Interest and Sinking Fund	(7,380,231)
Net General Obligation Debt Service Requirements (1)	$58,195,696
$0.3626 Interest and Sinking Fund Tax Rate @ 98.00% Collections (2)	$63,613,728

(1) *The debt service requirements shown for the period ending August 31, 2018 reflect the figures as represented in this Remarketing Memorandum for the Bonds and the Unlimited Tax School Building Bonds, Series 2018 (See Table 8 herein.) These figures do not account for the Series 2010B Build America Bonds and the Series 2011 Qualified School Construction Bonds interest subsidy, nor do they reflect any decreases in expected federal subsidies as a result of sequestration. Depending on the final amounts received from the Texas Education Agency for IFA and EDA payments, the District anticipates utilizing a transfer from the I&S fund balance in order to maintain the existing $0.3626 Interest and Sinking Fund tax rate.*

(2) *Based on 2017/18 Taxable Assessed Valuation of $17,901,811,247.*

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ESTIMATED OVERLAPPING DEBT

TABLE 7

(As of May 1, 2018)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures.

The following statements of direct and estimated overlapping ad valorem bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete.

Furthermore, certain of the entities below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	2017 Net Taxable Assessed Valuation	2017 Tax Rate	Net Debt	% Overlapping	Amount Overlapping	Authorized But Unissued Debt
Alamo Community College	$154,494,708,444	$0.1492	$488,500,000	13.28%	$64,872,800	$270,000,000
Balcones Heights, City of	282,382,889	0.5830	197,000	46.23%	91,073	0
Bexar County	150,933,852,946	0.2912	1,732,565,000	13.28%	230,084,632	37,265,887
Bexar County Hospital District	157,530,238,289	0.2762	891,565,000	13.28%	118,399,832	0
Olmos Park, City of	688,573,959	0.4328	1,780,000	6.16%	109,648	0
San Antonio, City of	107,927,896,188	0.5583	1,607,955,000	18.19%	292,487,015	753,880,000
Total Gross Overlapping Debt					$706,045,000	
San Antonio Independent School District			$886,439,988 *	100.00%	886,439,988	250,000,000
Total Direct and Overlapping Debt					$1,592,484,987	
Ratio of Direct and Overlapping Debt to the 2017 Assessed Valuation					8.90%	
Per Capita Direct and Overlapping Debt					$4,678	

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas, the Issuer's Annual Financial Report dated June 30, 2017 and the Bexar Appraisal District.

**Assumes that the District will no longer receive Instructional Facilities Allotments or Existing Debt Allotments after 2017-2018 School Year.*

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Tax Supported Debt Service Requirements **TABLE 8**

Period Ending 8/31[1]	Outstanding Debt [2]			Remarketing of the Variable Rate Unlimited Tax Refunding Bonds, Series 2014B[3]			Unlimited Tax School Building Bonds, Series 2018[4]			Total Debt Service	Percent of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total		
2018	$34,380,000	$31,720,258	$66,100,258							$66,100,258	
2019	32,280,000	32,599,130	64,879,130	$810,000	$2,034,400	$2,844,400	$2,305,000	$10,689,360	$12,994,360	80,717,890	
2020	35,155,000	31,175,275	66,330,275	840,000	2,002,000	2,842,000	2,890,000	8,774,550	11,664,550	80,836,825	
2021	35,190,000	29,676,544	64,866,544	880,000	1,960,000	2,840,000	3,005,000	8,658,950	11,663,950	79,370,494	
2022	36,750,000	28,134,432	64,884,432	925,000	1,916,000	2,841,000	3,125,000	8,538,750	11,663,750	79,389,182	19.86%
2023	38,390,000	26,526,080	64,916,080	970,000	1,869,750	2,839,750	3,280,000	8,382,500	11,662,500	79,418,330	
2024	40,125,000	24,826,470	64,951,470	1,020,000	1,821,250	2,841,250	3,445,000	8,218,500	11,663,500	79,456,220	
2025	37,284,988	27,143,999	64,428,987	1,070,000	1,770,250	2,840,250	3,615,000	8,046,250	11,661,250	78,930,487	
2026	42,690,000	21,800,622	64,490,622	1,125,000	1,716,750	2,841,750	3,795,000	7,865,500	11,660,500	78,992,872	
2027	44,685,000	19,872,582	64,557,582	1,180,000	1,660,500	2,840,500	3,985,000	7,675,750	11,660,750	79,058,832	43.74%
2028	35,100,000	18,130,919	53,230,919	1,240,000	1,601,500	2,841,500	4,185,000	7,476,500	11,661,500	67,733,919	
2029	32,830,000	14,324,928	47,154,928	1,300,000	1,539,500	2,839,500	4,395,000	7,267,250	11,662,250	61,656,678	
2030	20,775,000	12,752,659	33,527,659	1,365,000	1,474,500	2,839,500	4,615,000	7,047,500	11,662,500	48,029,659	
2031	21,730,000	11,755,910	33,485,910	1,435,000	1,406,250	2,841,250	4,845,000	6,816,750	11,661,750	47,988,910	
2032	15,750,000	10,696,646	26,446,646	1,505,000	1,334,500	2,839,500	5,090,000	6,574,500	11,664,500	40,950,646	60.19%
2033	16,445,000	9,973,429	26,418,429	1,585,000	1,259,250	2,844,250	5,340,000	6,320,000	11,660,000	40,922,679	
2034	17,105,000	9,269,227	26,374,227	1,660,000	1,180,000	2,840,000	5,610,000	6,053,000	11,663,000	40,877,227	
2035	17,810,000	8,531,368	26,341,368	1,745,000	1,097,000	2,842,000	5,890,000	5,772,500	11,662,500	40,845,868	
2036	18,535,000	7,762,789	26,297,789	1,830,000	1,009,750	2,839,750	6,185,000	5,478,000	11,663,000	40,800,539	
2037	19,345,000	6,916,717	26,261,717	1,925,000	918,250	2,843,250	6,495,000	5,168,750	11,663,750	40,768,717	73.62%
2038	20,180,000	6,028,037	26,208,037	2,020,000	822,000	2,842,000	6,820,000	4,844,000	11,664,000	40,714,037	
2039	21,075,000	5,100,300	26,175,300	2,120,000	721,000	2,841,000	7,160,000	4,503,000	11,663,000	40,679,300	
2040	21,950,000	4,169,227	26,119,227	2,225,000	615,000	2,840,000	7,520,000	4,145,000	11,665,000	40,624,227	
2041	13,725,000	3,198,950	16,923,950	2,340,000	503,750	2,843,750	7,895,000	3,769,000	11,664,000	31,431,700	
2042	14,300,000	2,567,700	16,867,700	2,455,000	386,750	2,841,750	8,290,000	3,374,250	11,664,250	31,373,700	88.38%
2043	14,910,000	1,909,350	16,819,350	2,575,000	264,000	2,839,000	8,705,000	2,959,750	11,664,750	31,323,100	
2044	15,530,000	1,222,300	16,752,300	2,705,000	135,250	2,840,250	9,135,000	2,524,500	11,659,500	31,252,050	
2045	10,365,000	505,800	10,870,800				9,595,000	2,067,750	11,662,750	22,533,550	
2046	5,040,000	201,600	5,241,600				10,075,000	1,588,000	11,663,000	16,904,600	97.72%
2047							10,580,000	1,084,250	11,664,250	11,664,250	98.83%
2048							11,105,000	555,250	11,660,250	11,660,250	100.00%
	$729,429,988	$408,493,249	$1,137,923,236	$40,850,000	$33,019,150	$73,869,150	$178,975,000	$172,239,610	$351,214,610	$1,563,006,996	

[1] The District's fiscal year end is June 30, however for purposes of tax rate levy the table show above is for the period ending August 31.

[2] Considers as an off-set to debt service the refundable tax credit to be received from the United States Department of the Treasury by the District as a result of its designation and election to treat certain issues of its outstanding unlimited ad valorem tax supported debt as "Build America Bonds" and/or "Qualified School Construction Bonds" and "Qualified Bonds" under the Code.

[3] Represents amortization schedule, with principal amounts and interest payments, upon conversion to a fixed rate interest period on August 1, 2018.

[4] Anticipated to be issued on July 25, 2018.

INTERESTAND SINKING FUND BUDGET PROJECTION — TABLE 9

Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2018 (1)		$66,100,258
Interest and Sinking Fund, as of June 30, 2017	$86,699,033	
Instructional Facilities Allotment (2)	363,453	
Existing Debt Allotment (2)	160,878	
$0.3626 Interest and Sinking Fund Tax Rate @ 98.00% Collections (3)	58,195,696	145,419,060
Estimated Balance as of June 30, 2018		$79,318,803

(1) The District's fiscal year end is June 30. Debt service requirements are presented on a period ending August 31 basis to conform to the District's manner of setting their tax rate.

(2) The District assumes it will not receive this State aid after the 2017-2018 school year.

(3) Based on 2017/18 Taxable Assessed Valuation of $17,901,811,247.

AUTHORIZED BUT UNISSUED BONDS — TABLE 10

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
School Building	11/8/2016	$450,000,000	$0	$200,000,000 *	$250,000,000

**Represents the District's Unlimited Tax School Building Bonds, Series 2018 anticipated to be issued on July 25, 2018 and a portion of the original issue premium on such bonds allocated to voter authorization.*

The District previously authorized and utilized a commercial paper program for the issuance of it's 2010 voted authorization. The District has allowed the liquidity of this program to lapse and does not anticipate its use in the immediate future. The program may be reconstituted, however, with future acquisition of liquidity support therefor.

OTHER OBLIGATIONS — TABLE 11

On October 1, 2017, the District entered into a lease arrangement with Brooks Development Authority for building facilities and related grounds, for the purposes of the District establishing a medical career-themed high school at Brooks City Base. The lease is for a term of 20 years with a purchase option beginning after five years.

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CHANGES IN NET POSITION **TABLE 12**

	Fiscal Year Ended				
	2017	2016	2015	2014	2013
Program Revenues:					
Charges for Services	$3,041,973	$3,457,916	$2,858,414	$3,892,117	$4,025,542
Operating Grants & Contribution	172,369,510	198,000,881	179,194,504	175,196,465	174,574,088
General Revenues:					
Property Taxes	0	0	174,965,706	164,370,593	159,359,975
Property Taxes, Levied for General Purposes	183,872,029	146,137,445	0	0	0
Property Taxes, Levied for Debt Service	53,842,255	48,140,060	0	0	0
Grants and Contributions Not Restricted	258,842,440	266,540,791	264,568,312	251,796,242	244,243,010
Investment Earnings	-1,592,279 [1]	5,169,963	575,392	588,680	2,464,015
Miscellaneous Local and Intermediate Revenue	9,107,519	2,072,787	2,964,398	2,238,261	784,901
Extraordinary Item-Resource	2,852,855	0	0	0	0
Total Revenues	$682,336,302	$669,519,843	$625,126,726	$598,082,358	$585,451,531
Expenditures:					
Instruction	$317,144,166	$333,292,774	$304,624,281	$304,413,610	$298,269,664
Instruction Resources & Media Services	7,269,784	7,345,823	6,744,062	6,738,712	6,823,001
Curriculum & Instructional Staff Development	26,623,808	19,439,521	17,787,930	14,881,186	14,432,403
Instructional Leadership	14,661,225	15,477,034	13,754,068	12,292,657	12,260,934
School Leadership	36,712,854	34,032,647	31,817,262	31,623,651	33,520,175
Guidance, Counseling & Evaluation Services	22,361,135	20,538,112	20,296,745	19,534,928	19,855,244
Social Work Services	5,631,551	5,756,793	6,125,699	5,828,314	5,487,101
Health Services	9,710,785	9,373,587	8,883,343	8,433,948	8,121,690
Student (Pupil) Transportation	13,041,346	12,150,180	11,813,960	11,908,679	11,393,289
Food Services	43,536,259	43,749,368	43,370,939	40,830,531	40,418,519
Extracurricular Activities	12,691,289	11,842,204	11,726,676	10,439,507	10,104,335
General Administration	17,268,099	15,381,107	14,790,120	13,215,135	12,106,212
Facilities Maintenance and Operations	64,042,929	63,169,846	55,692,868	54,628,818	48,656,050
Security and Monitoring Services	6,593,169	6,383,008	6,295,032	6,041,338	5,955,330
Data Processing Services	12,473,758	10,432,011	14,132,655	9,821,353	8,784,965
Community Services	7,704,263	7,061,243	6,700,290	6,815,365	5,494,512
Interest on Long Term Debt	28,726,464	26,153,873	29,010,398	29,293,753	29,868,294
Bond Issuance Cost and Fees	0	0	0	0	202,206
Shared Services Arrangements	584,740	776,161	912,547	1,165,756	690,826
Payments to Juvenile Justice Alt. Ed. Programs	8,151	4,076	4,076	27,442	43,880
Property Tax Appraisal Services	0	0	0	0	899,217
Other Governmental Charges	1,074,277	987,411	961,645	935,370	0
Total Expenditures	$647,860,052	$643,346,779	$605,444,596	$588,870,053	$573,387,847
Increase (Decrease) in Net Position Expenditures	$34,476,250	$26,173,064	$19,682,130	$9,212,305	$12,063,684
Beginning Net Position	405,959,265	379,786,201	449,350,726	443,564,886 [2]	431,501,203
Prior Period Adjustment	0	0	(89,246,655) [3]	(3,426,465)	0
Ending Net Position	$440,435,515	$405,959,265	$379,786,201	$449,350,726	$443,564,887

Source: Issuer's Annual Financial Reports.

[1] *Negative Investment earnings was due to the change in the market value of the District's Flex Repo.*

[2] *Restated.*

[3] *During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting Pensions, which was later amended by GASB Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date. With GASB Statement No. 68, the District must assume its proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. Adoption of GASB Statement No. 68 required a prior period adjustment of ($89,246,655) to report the effect of GASB Statement No. 68 retroactively. For more information, see Note K in Appendix D - "Excerpts from the Issuer's Audited Financial Statements for the Year Ended June 30, 2015."*

GENERAL FUND REVENUE AND EXPENDITURE HISTORY **TABLE 12A**

	Fiscal Year Ended				
	2017	2016	2015	2014	2013
Revenues:					
Local and Intermediate Sources	$187,867,888	$150,225,405	$135,864,521	$130,008,099	$126,229,054
State Program Revenues	275,674,725	285,252,654	282,285,183	272,200,561	260,076,796
Federal Program Revenues	13,534,827	12,188,287	11,388,144	13,050,862	14,692,334
Total Revenues	$477,077,440	$447,666,346	$429,537,848	$415,259,522	$400,998,184
Expenditures:					
Instruction	$258,285,364	$258,820,558	$245,107,518	$243,002,861	$235,659,543
Instruction Resources & Media Services	6,329,734	6,649,755	6,275,685	6,194,989	6,329,965
Curriculum & Instructional Staff Development	9,305,904	5,695,322	5,556,579	5,021,913	3,266,808
Instructional Leadership	7,609,255	8,122,633	6,724,811	6,144,452	5,983,818
School Leadership	34,045,622	28,564,583	27,545,408	25,612,235	24,000,919
Guidance, Counseling & Evaluation Services	15,979,612	15,005,006	15,128,416	14,911,982	15,197,510
Social Work Services	3,812,609	3,692,538	2,858,465	2,814,221	2,601,568
Health Services	8,510,298	8,050,657	7,703,288	7,168,112	6,819,988
Student (Pupil) Transportation	10,746,156	11,434,902	9,823,762	10,958,107	9,793,846
Food Services	144,738	216,873	224,731	273,423	184,367
Extracurricular Activities	11,499,189	10,830,635	11,030,600	9,749,714	9,465,422
General Administration	15,846,680	14,205,243	13,977,639	12,491,953	11,428,148
Facilities Maintenance and Operations	52,094,107	48,279,712	46,258,494	49,294,030	44,437,496
Security and Monitoring Services	5,936,753	5,947,971	5,964,234	5,651,826	5,677,952
Data Processing Services	11,044,647	10,672,441	12,308,433	8,737,356	7,555,342
Community Services	1,676,047	1,400,650	1,482,918	1,734,161	1,735,232
Debt Service-Bond Issuance Cost & Fees	0	23,500	18,000	351,362	0
Facilities Acquisition and Construction	2,156,661	737,590	607,945	872,491	889,344
Payments to Fiscal Agent/Member Dist.-SSA	0	0	0	828,456	0
Payments to Juvenile Justice Alternative Education Program	8,151	4,076	4,076	27,442	43,880
Other Intergovernmental Charges	1,074,277	987,411	961,645	935,370	899,217
Total Expenditures	$456,105,804	$439,342,056	$419,562,647	$412,776,456	$391,970,365
Excess (Deficiency) of Revenues Over (Under) Expenditures	$20,971,636	$8,324,290	$9,975,201	$2,483,066	$9,027,819
Other Resources and (Uses)	$0	$0	($8,580,376)	($458,219)	($7,192,301)
Sale of Real and Personal Property	3,994,896	70,025	0	0	0
Transfers In	0	648	0	0	0
Transfers Out (Use)	(401,934) (1)	(4,162,701) (1)	0	0	0
Total Other Financing Sources (Uses)	$3,592,962	($4,092,028)	($8,580,376)	($458,219)	($7,192,301)
Net Change in Fund Balances	$24,564,598	$4,232,262	$1,394,825	$2,024,847	$1,835,518
Beginning Fund Balance - July 11	73,213,209	68,980,947	67,586,122	65,561,275	63,725,757
Ending Fund Balance - June 30(2)	$97,777,807	$73,213,209	$68,980,947	$67,586,122	$65,561,275

Issuer's Annual Financial Reports.

(1) *Transfers represent a subsidy to the Child Nutrition Program and maintenance and transportation additions.*

(2) *The District's estimated General Fund balance anticipated as of June 30, 2018 is $97,777,807.*

For fiscal year 2019, the District is working to address a projected $31 million revenue decline as a result of a decline in student enrollment for fiscal year 2018 and a projected decline of student enrollment for fiscal year 2019. By aligning staff with the projected student enrollment, implementing various cost savings strategies, and, partnering with Charter Management Operators and other innovative school models, the District is projecting to cover the $31 million revenue decline by applying cost reduction measures in the following areas:

Reduction in District Personnel:	$11.3M
Personnel Savings from Attrition:	6.7M
Use of SAISD TRE funds to Protect Programs:	9.0M
Savings from Operating Efficiencies:	3.1M
Revenue Enhancements:	0.9M
Total:	$31M

The District has built a balanced budget for fiscal year 2019 and presented this budget to the District's Board, which was adopted on June 18, 2018. See "CURRENT DISTRICT FINANCIAL CONDITION AND INITIATIVES" herein.

CURRENT INVESTMENTS* **TABLE 13**

As of March 31, 2018, the District has the following investments.

Type of Investment	Amount
Investment Pools	$196,503,712
Money Market Funds	43,713,180
Deutsche Bank Flex	18,616,883
Frost Bank	4,662,005
Bank Accounts	528,144
Total	$264,023,924

Source: The Issuer.
**Unaudited.*

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APPENDIX B

General Information Regarding the San Antonio Independent School District, the City of San Antonio, Texas and Bexar County, Texas

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

The District:

The San Antonio Independent School District (the "District") includes most of the City of San Antonio's (the "City") downtown and metropolitan areas inside Loop 410 and I-35. The District is in Bexar County. Industries include finance, retail and wholesale distribution, manufacturing, and medicine. Located inside the District are five shopping malls, two breweries, the Riverwalk, and Brooks City Base.

The Schools and Enrollment:

Historical Enrollment for the District

School Year	Enrollment
2013-14	53,811
2014-15	53,701
2015-16	53,063
2016-17	52,486
2017-18	50,641

School Facilities

School	Number of Schools
High School	13
Middle or Junior High	12
Elementary	40[(1)]
Early Childhood Education Centers	6
Academies	16
Alternative Campuses	3

[(1)]On May 4, 2018, the Texas State Teachers Association filed a lawsuit against the District in an attempt to block a New York-based charter school's operation and management of Stewart Elementary, a campus which has not met State standards. Such operation and management was previously approved by the Board. See "OTHER PERTINENT INFORMATION – Alliance v. Pedro Martinez et al." herein.

Educational status of the teachers is as follows:

Doctorate's degree	10
Master's degree	1,058
Bachelor's degree	2,275
Average year of classroom experience per teacher	10

Personnel distribution is as follows:

Central Administration	69
Campus Administration	235
Teachers	3,360[(1)]
Professional Support Staff (Counselors, Librarians, Nurses, Social Workers, Etc.)	1,042
Education Aides	813
Auxiliary Staff (Secretaries, Aides, Clerks, Bus Drivers, Food Service, Maintenance, Etc.)	2,182
TOTAL	7,701

For the 2017-2018 school year, the annual salary for a beginning teacher is $52,350, and ranges to $58,008 for a teacher joining SAISD with 25 or more years of teaching experience.

[(1)]In early May 2018, the District, citing decreased enrollment and revenue loss, announced it will terminate 132 teachers. See "CURRENT DISTRICT FINANCIAL CONDITION AND INITIATIVES" and Table 12A herein.

The City of San Antonio

The City of San Antonio, Texas (the "City") is the county seat of Bexar County, located at the intersection of Interstate Highways 10 and 35. Population in the City has increased making it the second largest city in Texas and the seventh largest in the United States. Trade, government, and education and health services represent the largest employment sectors in the San Antonio Metropolitan Statistical Area ("MSA"). Finance (including insurance), healthcare and bioscience, tourism, and the military represent the largest industries in San Antonio. The Alamo, the Riverwalk, the Tower of Americas, Fiesta Texas, SeaWorld of Texas, the San Antonio Zoo, La Villita, Brackenridge Park, the Alamodome, and the Institute of Texan Cultures make the City a very popular destination.

Bexar County

County Characteristics: Bexar County was created in 1836. The south central Texas county is the major component of the San Antonio Metropolitan Statistical Area and is traversed by Interstate Highways 10 and 35, four U.S. Highways, and two State Highways.

County Seat: San Antonio *2017 population estimate:* 1,928,680

Economic Base: Mineral: Sand, limestone and gravel.
Industry: Tourism, military bases, medical/biomedical research & services, government and education center.
Agricultural: Nursery crops, horses, hay, grain sorghum, corn and beef cattle.

Oil & Gas 2017: The county ranks 165 out of all the counties in Texas for oil production.

Oil Production:

Year	Description	Volume	%Change from Previous Year)
2016	Oil	128,211 BBL	34.46
2017	Oil	74,078 BBL	-42.22

Casinghead: (Texas Railroad Commission)

Year	Description	Volume	%Change from Previous Year)
2016	Casinghead	59,809 MCF	259,939.13
2017	Casinghead	22 MCF	-99.96

Retail Sales & Effective Buying Income:

Year	2017	2016	2015
Retail Sales	$28.7B	$28.1B	$25.8B
Effective Buying Income (EBI)	$43.3B	$40.7B	$39.5B
County Median Household Income	$46,558	$45,381	$45,298
State Median Household Income	$57,227	$55,352	$53,037
% of Households with EBI below $25K	24.8%	12.0%	12.0%
% of Households with EBI above $25K	66.2%	65.8%	66.7%

Employment Data:

	2017		2016		2015	
	Employed	Earnings	Employed	Earnings	Employed	Earnings
1st Quarter:	848,200	$10.8B	830,742	$10.1B	806,522	$9.8B
2nd Quarter:	853,681	$10.1B	839,061	$9.6B	817,903	$8.1B
3rd Quarter:	853,061	$10.08B	841,723	$10.0B	817,129	$9.3B
4th Quarter:	N/A	N/A	853,892	$10.6B	832,495	$10.4B

Major Colleges/Universities: University of the Incarnate Word of San Antonio, University of Texas at San Antonio, Trinity University, The University of Texas Health Science Center at San Antonio, Texas A&M University - San Antonio, St. Mary's University, Our Lady of the Lake University, Alamo Community College District

Year	Total	Fall Enrollment
2017	7	112,961
2016	8	115,582

Sources: Texas Municipal Reports, published by the Municipal Advisory Council of Texas and Demographics USA County Edition.
Any data on population, value added by manufacturing or production of minerals or agricultural products are from US Census or other official sources.

Labor Force Statistics for Bexar County

Labor Force Statistics	**February 2018**	**January 2018**	**February 2017**	**Monthly Change**	**Year Ago Change**
% Unemployment (U.S.)	4.0	4.0	4.7	0.0	-0.7
% Unemployment (Texas)	4.1	4.1	4.7	0.0	-0.6
% Unemployment (Bexar County)	3.5	3.4	3.9	0.1	-0.4

Source: Texas Labor Market Review.

Labor Force Statistics	**2017**	**2016**	**2015**	**2014**	**2013**
% Unemployment (U.S.)	4.1	4.5	4.8	5.4	6.5
% Unemployment (Texas)	4.0	4.6	4.2	4.1	5.6
% Unemployment (Bexar County)	3.5	3.7	3.5	3.7	5.5

Source: Texas Labor Market Review.

Employment & Wages by Industry	**2017***	**2016**	**2015**	**2014**	**2013**
Natural Resources and Mining	4,708	4,706	5,107	5,575	5,176
Construction	37,949	38,932	38,479	33,897	33,957
Manufacturing	35,065	34,886	34,040	33,977	34,500
Trade, Transportation & Utilities	140,553	144,579	142,448	130,343	132,202
Information	18,946	19,252	20,092	19,459	19,844
Financial Activities	77,242	77,035	74,534	68,944	68,665
Professional & Business Services	113,994	116,456	110,786	103,681	104,206
Education & Health Services	138,598	138,064	133,825	121,284	121,029
Leisure & Hospitality	110,137	110,207	107,377	99,966	100,240
Other Services	24,621	24,125	23,745	22,319	22,291
Unclassified	655	356	211	150	204
Federal Government	34,778	34,886	34,010	33,737	33,981
State Government	17,379	17,448	18,430	17,244	17,114
Local Government	93,355	92,763	91,577	87,458	87,767
Total Employment	847,979	853,695	834,660	778,033	781,176
Total Wages	$10,835,529,767	$10,608,835,575	$10,560,876,107	$9,276,495,458	$8,957,652,744

Source: Texas Quarterly Census of Employment & Wages.
**1st Quarter only.*

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APPENDIX C

Form of Original Opinion of Bond Counsel

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$48,880,000.00
SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bexar County)
VARIABLE RATE UNLIMITED TAX REFUNDING BONDS, SERIES 2014B

IN REGARD to the authorization and issuance of the "San Antonio Independent School District Variable Rate Unlimited Tax Refunding Bonds, Series 2014B" (the “Bonds”), dated August 15, 2014, in the aggregate original principal amount of $48,880,000.00 we have reviewed the legality and validity of the issuance thereof by the San Antonio Independent School District (the “District”). The Bonds are issuable in fully registered form only and have a Stated Maturity of August 1, 2044, 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 District solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas, the defeasance and discharge of the District's obligations being refunded by the Bonds, 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 verity, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the District. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. 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 District'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 District in connection with the issuance of the Bonds, including the Order and the Escrow Deposit Letter (the “Escrow Agreement”) between the District and Amegy Bank National Association, Houston, Texas (the “Escrow Agent”) and the certification by the financial advisors to the District of the sufficiency of cash and investments deposited with the Escrow Agent; (2) customary certifications and opinions of officials of the District; (3) certificates executed by officers of the District relating to the expected use and investment of proceeds of the Bonds and certain other funds of the District, and to certain other facts solely within the knowledge and control of the District; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the District, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the District 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 District.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the District with the provisions of the Order and in reliance upon the certification of the financial advisors and upon the representations and certifications of the District 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 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.

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

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

APPENDIX D

Excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the San Antonio Independent School District, Texas Audited Financial Statements for the fiscal year ended June 30, 2017, and is not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.

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2017

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

SAISD

San Antonio Independent School District

141 Lavaca Street, San Antonio, Bexar County, TX 78210
www.saisd.net

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SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

Comprehensive Annual Financial Report

San Antonio, Texas

For the Year Ended June 30, 2017

SAISD

Prepared by
Financial Services and Business Operations

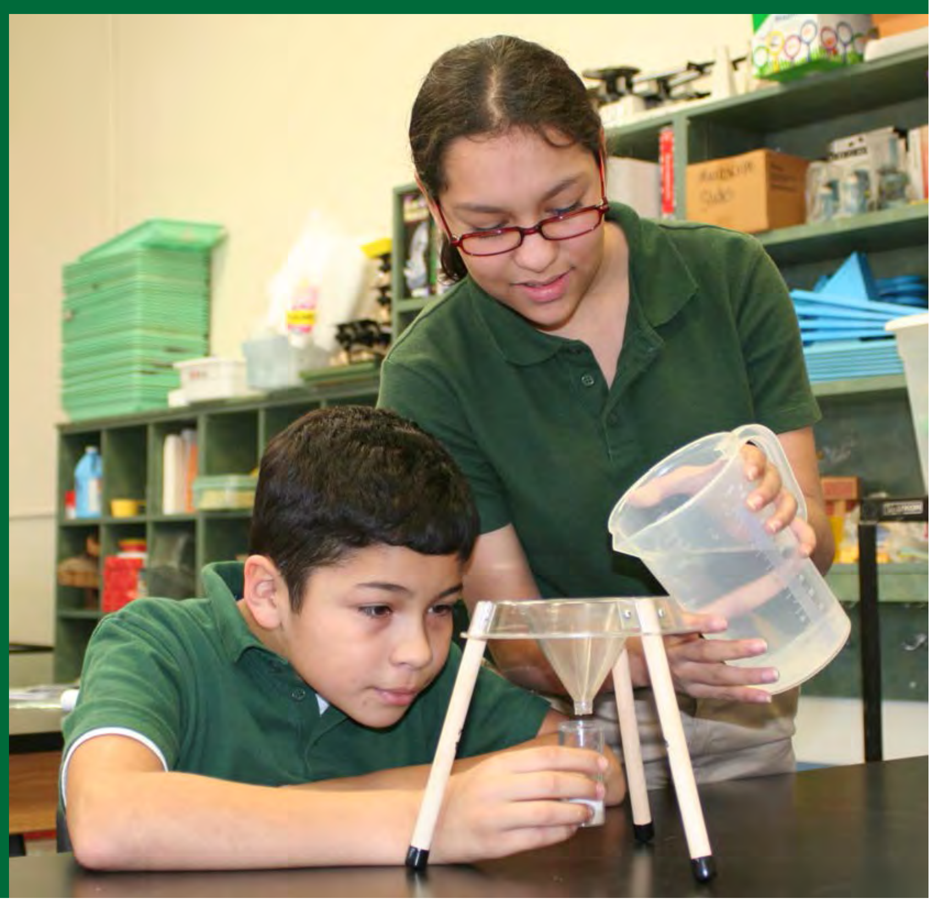
Larry A. Garza
Associate Superintendent

Rena G. Valdez
Director of Accounting

Jill Cook, CPA
General Accounting Manager

SAISD

Introductory Section



SAISD

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
San Antonio, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2017

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San Antonio Independent School District

141 Lavaca Street • San Antonio, Texas 78210-1095
Telephone (210) 554-8590

Financial Services and Business Operations

November 13, 2017

Members of the Board of Trustees, Citizens and Patrons
San Antonio Independent School District
141 Lavaca Street
San Antonio, Texas 78210-1095

Dear Board Members, Citizens and Patrons:

We are pleased to present the District's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017 which is structured to provide both financial and non-financial information for District accountability and public transparency. The District's CAFR is prepared in accordance with generally accepted accounting principles (GAAP) which are applicable to governmental entities throughout the United States. The report conforms to all current, relevant pronouncements of the Governmental Accounting Standard Board (GASB).

This report complies with State law that requires Texas public school Districts publish, within one hundred fifty days of the close of each fiscal year, a complete set of financial statements which are audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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.

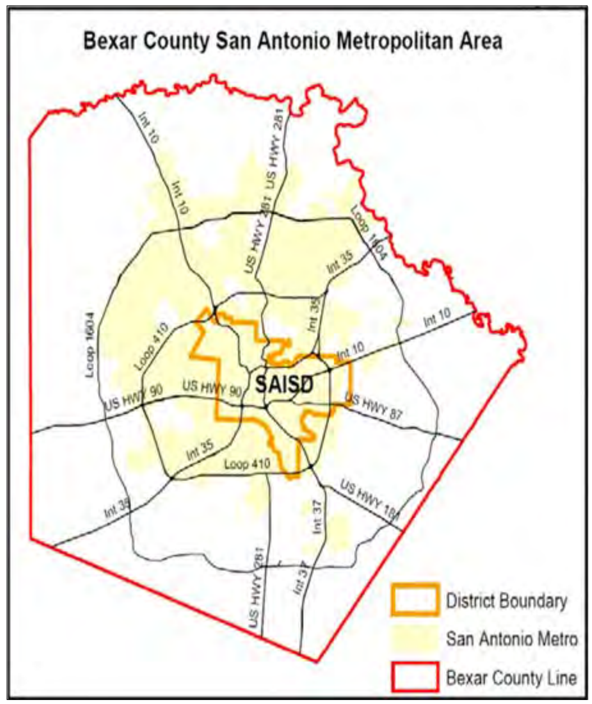
This CAFR consists of management's representations concerning the finances of the District. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the District has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation 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 control has been designed to provide reasonable rather than absolute assurance that financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The District's financial statements have been audited by Garza/Gonzalez and Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal 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 fiscal 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 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 special 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' reports on the internal controls and compliance with applicable laws and regulations, and a schedule of findings and questioned costs is included in the Federal Awards Section of this report.

DISTRICT Profile - Our Origins

While San Antonio public schools were established by the City Council in 1854, it was not until May 2, 1899 that the school system became an independent District with the formation of its own Board of Trustees. The District received its first charter from the state of Texas in 1903. The District ranks third in student population among the 19 Bexar County-area school districts and is the 17th largest of the 1,057 school districts in Texas. The District encompasses 79 square miles with a total population of 306,943 (2010 U.S. Census). Most of the District is within San Antonio, but also serves parts of the cities of Olmos Park and Balcones Heights and a small unincorporated area of east Bexar County. While San Antonio is commonly known as "the heart of Texas" due to its unique geographical position one could say that our District is "the heart of San Antonio". Notice the map on the right shows our District's boundaries encompasses very little area in comparison to the San Antonio Metropolitan area which comprises nine surrounding school districts.



Our Place in Alamo City History

For over a century the District has set high standards for all and has provided a sound educational foundation for generations of students. This established foundation allows students to reach their fullest potential and become some of San Antonio's most notable citizens. The true culmination of our commitment is proven by graduates who have continued on to become a Nobel Laureate, an astronaut, a US Secretary of HUD, the mayor of San Antonio, the President of the University of Texas at San Antonio, public servants, acclaimed athletes and national news correspondents.

San Antonio's Profile

San Antonio, acclaimed for being the "the heart of south Texas", is the 7th largest municipality in the United States and the 2nd largest city in the state of Texas. Its unique geographical location makes San Antonio accessible for both commerce and culture to east and west coasts and from Canada to South America. It encompasses 467 miles geographically within Bexar County and currently has a population of over 1.71 million residents. The population grew from 1.33 million people in 2010 to 1.47 million in 2015, a 10.7% increase, adding more than 142,438 people. It is projected to grow an additional 8.12% through the year 2021.

Local Economy

San Antonio is long known for hosting some 30 million visitors a year, which in turn creates an annual influx of $12 billion into the local economy by creating jobs, stimulating business development, funding city projects and enriching the culture of San Antonio. According to the San Antonio Economic Development Foundation (SAEDF), major industry clusters help drive the city's dynamic and diverse economy. Aerospace/aviation, bioscience/health care, cyber security, financial services, military/defense, and manufacturing are just a few of the key industries that have a significant role in the local economy. Our city's aerospace/aviation industry ranges from manufacturing aircraft equipment and parts to operating flight schools. Aerospace/aviation companies found in the San Antonio area include Alamo Plating and Metal Finishing, Boeing, Lockheed Martin, VT San Antonio Aerospace and others. Information from SAEDF indicates the bioscience and healthcare industry is a dominant force in the San Antonio. This industry alone has added 41,600 new jobs over the past decade. Occupations include registered nurses, medical and clinical laboratory technicians, medical records clerks, medical assistants and more. The information technology/cybersecurity also plays a major role in San Antonio. According to Computerworld Magazine, San Antonio is #2 in the nation for information assurance, behind only Washington D.C. Some IT/cybersecurity companies specialize in defense technology while other companies are structured in networking, cloud computing and security managements for financial, healthcare and government institutions. Reports from SAEDF state that the manufacturing industry in our city is diverse and ranks the fourth largest manufacturing market in Texas. Major manufacturing companies in and around San Antonio include Caterpillar, Frito-Lay, H-E-B, San Antonio Shoemakers, Tyson Foods, Toyota Manufacturing and others. It is well known that for many years the military has had a significant presence in San Antonio both for its military labor force and healthcare facilities. The Texas Comptroller of Public Accounts and Joint Base San Antonio estimate there are 77,659 directly employed by the military and 205,336 persons indirectly employed with the military. SA2020's Education initiative is dedicated to increasing education attainment at all levels of study, which will allow San Antonio's workforce to keep expanding and help its members develop skills relevant to relocating companies and local industries. All the above industries created more jobs and brought employees with their families to San Antonio which is vital for housing construction and sales and for the city's overall growing economy. Based on the housing market sales trend the SA Realtor Board expects that it will break last year's sales records which has not dwindled since the recession.

The US census bureau for 2014 indicates the city's median household income as $50,083 compared to national median household income of $56,516. The city's unemployment rate fell to a very low 3.5% in April 2017 while the state and national was 5.0% and 5.2%, respectively. Job growth in San Antonio was 1.88% compared to the national rate of 1.59%. According to Bert Sperling, the future job growth of San Antonio over the next 10 years is predicted to be 39.97%.

Board of Trustees

The District is governed by a seven-member Board of Trustees (Board) comprised of District residents, with each trustee representing one of the seven single-member districts and elected by voters of that district. A list of the current Board members as of June 30th is included on page xxxiii. The Board is responsible for managing and governing the schools of the District, including adopting goals and objectives for the District, adopting an annual budget, levying and collecting District taxes, hiring school personnel as recommended by the superintendent, setting salary schedules, adopting District policies, and reporting to the public on the District's progress. Through the Board's leadership and under the direction of the Superintendent of Schools the District carries out its responsibility to build, operate and maintain school facilities; develop, maintain and improve educational programs and courses of study, including career/technical educational programs; provide programs for English language learners and special need students; provide safe transportation to and from schools, and utilize the child nutrition programs to feed our students in a way that helps schools to improve student academic performance, attendance, and behavior.

The District's commitment to our students, parents and patrons is expressed in our mission statement, vision, core beliefs and core values, which are described below:

MISSION

The mission of the San Antonio ISD is to transform into a national model urban school district where every child graduates and is educated so that he or she is prepared to be a contributing member of the community.

The SAISD graduate will:

- Have the academic and technological skills to be successful in education, without remediation, in addition to being successful in career and life
- Possess the experiences and social skills to be successful in education, career and life
- Communicate effectively in written and verbal form in any setting
- Possess the self-discipline, drive and confidence to be successful in life

VISION

Our primary purpose of improving lives through a quality education is driven by an unrelenting determination to graduate all of our students and prepare them for success in higher education. Our ideology is reflected in our fundamental beliefs, commitments and core values that guide us in our daily practices.

Core Beliefs

The District's commitment to this mission is driven by five fundamental beliefs around which the District has built its governing policies and daily practices:

- Every student can learn and achieve at high levels.
- We are responsible for the education and safety of every student.
- We are responsible for the efficient and effective operation of the school system.
- Everyone should be treated with respect.
- People support what they help create.

Core Values

The District has adopted seven core values that exemplify the five fundamental beliefs in action. In order to achieve our goals and attain our commitment, we expect the following values to guide the behavior of all employees:

- **Student Centered**
- Reflect **High Expectations**
- Show **Commitment**
- Exude **Passion**
- Embody **Integrity**
- Demonstrate **Respect**
- Employ **Teamwork**

What SAISD Offers Students

The District understands that education is not a "one size fits all" package, so a range of programs are offered to allow students to develop their talents or pursue special interest and career goals through magnet programs, specialized schools and in-District charter schools, which are open to students across Bexar County.

The District provides a comprehensive instructional program and related services from early childhood education through the twelfth grade for our 52,486 enrolled students. This includes a special education program for students with disabilities, occupational education, bilingual instruction for those with limited English proficiency, specialized instruction for disadvantaged students, and a Head Start Program for three and four-year-olds. The District remains committed to both the Pre-K and Head Start Programs, allowing students to begin their education at a younger age and enhancing their educational success. For parents who do not qualify for state funding the District continues to offer the acclaimed Pre-Kinder program through the District's tuition-supported system.

Magnets and Specialized Schools

There are a variety of magnet programs at middle and high school levels where hands-on experiences and advanced academics provide opportunities to explore tomorrow's careers. The high school program offerings comprise computer science, engineering, construction and automotive technology, banking, health and law professions, media and film, international baccalaureate diploma programme and more. The magnet schools are tightly aligned to Alamo Colleges' programs and offer students the opportunity to earn up to 45 hours college credit. The college credit is earned through a mix of free ducal-credit courses and Advanced Placement of International Baccalaureate credit by exam. At the middle school level the magnet school program offers American heritage, technology and language immersion. Some of these schools operate under non-traditional grade configurations, such as PK-8, PK-12, 4-8 and 6-12.

In-District Charter Schools

In-District charter schools are designed to implement innovative approaches to education that best fits a child's unique learning style. Students throughout Bexar County are eligible to apply for a spot. Enrollment in a charter school is at no cost to the student or family. Our in-District charter schools receive state funds on the same basis as our public schools which is based on the average daily attendance of students.

The current in-District charter schools include early college high schools, single gender and non-traditional grades academies. At the December 13th school board meeting, trustees approved six new in-District charter schools. The new in-District charters are: The Advanced Learning Academy; CAST (Center for Applied Science & Technology) High School which will open up to 9th graders; Lamar ES Dual-language instruction; Ogden Elementary Residency Lab School; Twain Dual Language Academy and, introducing Steele Montessori Academy. This Montessori educational model is the first for San Antonio Public Schools. These schools join the 14 established in-District charters for a total of 20 in SAISD. The in-District charters are in important part of our strategy to improve academic achievement across the District.

International Baccalaureate World Schools

Woodlawn Academy joined the prestigious group of International Baccalaureate (IB) World Schools offering the Middle Years Programme. It has the distinction of being the only IB Middle School in Bexar County. Woodlawn is the second campus designated as an IB World school, while Burbank HS has had this designation for nearly 20 years.

Early College High Schools

This group extends a personalized learning environment where students complete their high school diploma while earning up to sixty hours of college credit and/or an Associate Degree. Three campuses offering early college high school are Travis, Brackenridge and St. Philip's in partnership with the Alamo Colleges.

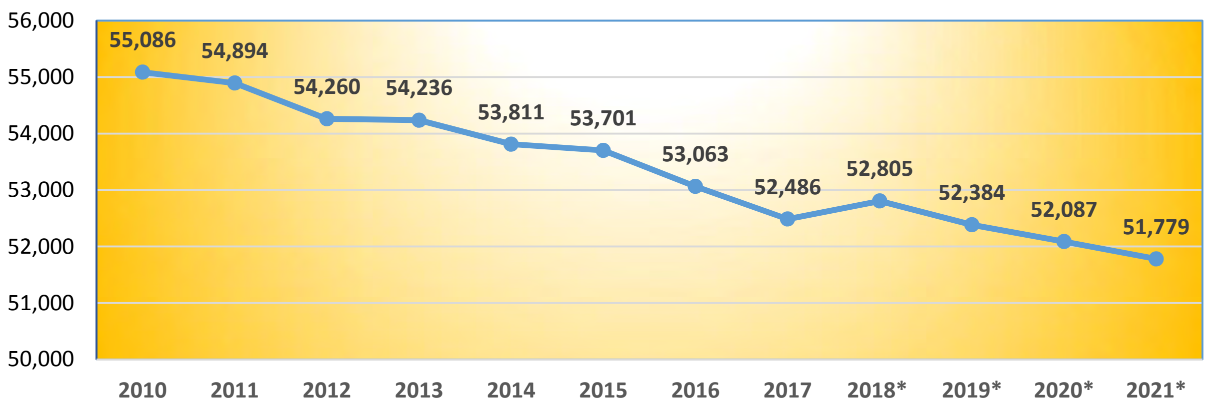
Exemplifying excellence since its founding in 2008 is the college-preparatory Young Women's Leadership Academy. The all-girls students in grades 6-12 are provided a rigorous, comprehensive education with an emphasis on math, science and technology – fields typically underrepresented by women. Public service, leadership, wellness skills and partnerships also are part of a well-rounded approach to prepare YWLA students for success in higher education and life. For the second straight year, YWLA ranked #30 in the nation as one of the most America's most challenging High Schools. The YWLA was one of only two San Antonio campuses to rank in the top 30 and the only public school.

In the fall of 2015, the District established the Young Men's Leadership Academy (YMLA) an all-boys school, a first for the District and a premiere in the city of San Antonio. The all-boys school started with approximately 200 young men in 4th, 5th and 6th grades. The academy will expand to grade 8 by 2017-18. The YMLA is a model of innovative learning through instruction that is tailored to the male learner and that is delivered in an environment that promotes developing character, leadership and discipline traits. The YMLA student will experience a highly interactive and rigorous learning environment, designed to prepare him for coursework that will lead to graduation at the Distinguished Level of Achievement.

Enrollment and Demographics

The District has been experiencing a declining enrollment trend since school year 2009-10, as illustrated in the graph below. The enrollment decrease is a trend noted in other inner-city districts, where suburban development draws families out towards the city limits. The District's actual enrollment decreased by 577 or 1.09% for 2016-17. Applying the historical membership trends yields the projected enrollment for the next four years. The data suggests membership decline will continue. By the year 2021, the membership for SAISD is projected below 51,800.

PEIMS Actual Membership with 4 Years of Extended Projections *

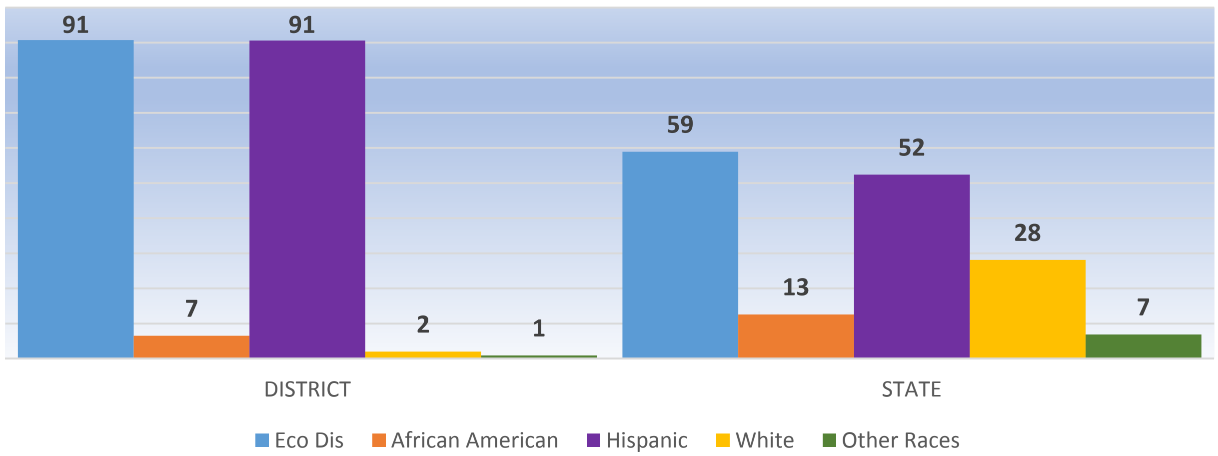


Source: SAISD PEIMS and Data Services Office

This challenge is being met with more rigid monitoring of staffing allocations to insure the most efficient use of necessary resources. The District continues to explore various means of increasing daily attendance – one of the factors that drive state funding – to mitigate the impact caused by enrollment decline. The District is, also, in the midst of academic transformation to attract and better prepare all students for success in college and career. To adapt to the District's changing enrollment and population patterns, the District closed four elementary schools at the end of the 2014-15 school year. These students transferred to new and/or extensively renovated campuses in the District made possible with Bond 2010 proceeds. Renovations of its aging infrastructures, in order to provide facilities more equitable with what is offered in neighboring school districts, continues through a $450 million bond referendum along with a Tax Ratification Election ratified by voters in November 2016. A graph depicting the ages of the school buildings is illustrated on page xxi.

As illustrated in the graph on the next page, the District's PEIMS 2016-17 demographics compared with the states indicates a nearly 2 to 1 ratio of economically disadvantaged students. Research has shown that economically disadvantaged children face more challenges compared to those from middle-class families. The social and academic challenges faced by our economically disadvantaged students makes it important to not only meet state standards but to instruct our students in a manner that is conducive to academic content that is carefully tailored to address the needs of our own student population. SAISD will continue to explore and incorporate initiatives to enhance leaning opportunities with the support of administrators, school staff, parents and the community at large.

2016-17 Percentage of Key Demographics



Student Assessment

The Texas Education Agency's (TEA) accountability system, the State of Texas Assessments of Academic Readiness (STAAR), is designed to measure a student's college and career readiness. The goal is to focus on increasing postsecondary readiness of graduating high school students and to ensure that Texas students are competitive with other students both nationally and internationally.

Student progress is measured for students in grades 4 through high school in reading, writing, mathematics, and English Language Arts. There are current plans regarding when progress information will be reported and used for accountability in 2014, 2015, 2016 and 2017.

Distinction Designations

The TEA accountability rating serves as evidence of the District's hard work toward continued progress as the state standards and assessments become more rigorous. This year twenty-nine SAISD schools earned one or more Distinction Designations from TEA based on student performance on the 2017 STAAR. Distinction designations are awarded to campuses based on achievement in performance indicators relative to a group of 40 campuses of similar type, size and student demographics. Depending on campus grade levels and type, the number of potential distinction designations can vary. Up to seven distinction designations can be earned for:

- Academic Achievement in English Language Arts/Reading
- Academic Achievement in Mathematics
- Academic Achievement in Science
- Academic Achievement in Social Studies
- Top 25 percent: Student Progress

- Top 25 percent: Closing Performance Gaps
- Postsecondary Readiness

Of the state's 8,757 public schools in Texas, only 467 (5.3%) Texas Education Agency-rated campuses earned every distinction for which they were eligible. We are proud that, The Young Women's Leadership Academy, earned all possible designations and is consistently rated Exemplary by the state since its inception.

The table below is a summary of the Distinction awards earned by campus type.

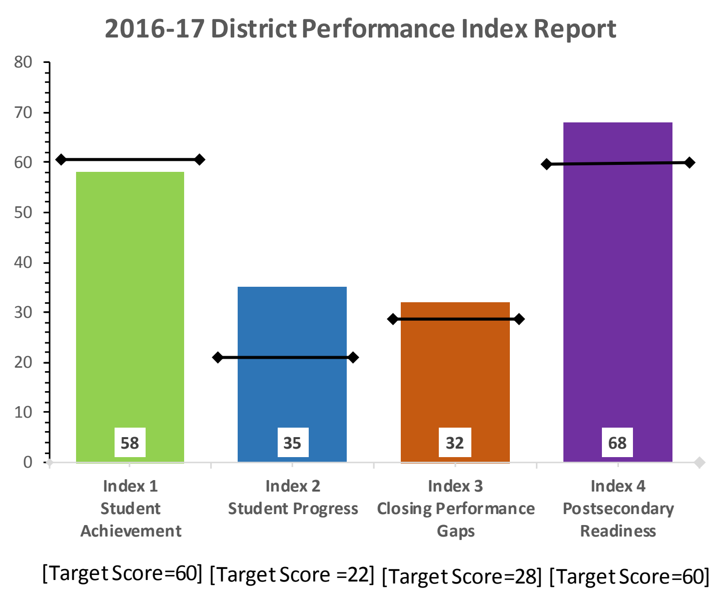
Campus Type	Earned 1 Distinction	Earned 2 Distinctions	Earned 3 Distinctions	Earned 4 Distinctions	Earned 5 Distinctions	Earned 6 Distinctions	Earned 7 Distinctions	Total
High School	1	3		1			1	**6**
Middle School	2		1			1		**4**
Elementary	6	3	3	2	1		n/a	**15**
Academy	1	3						**4**
Total	**10**	**9**	**4**	**3**	**1**	**1**	**1**	**29**

There were 2 campuses which earned all possible Distinction Designations:

All Possible Distinction Designations	
Young Women's Leadership (7 out of 7)	Huppertz ES (6 out of 6)

Source: SAISD Internal – 2017 State Accountability Results – 2017 Index Performance

The chart below referred to as the "Performance Index Report" is part of TEA's 2017 Accountability Summary of our District's scores compared to the target score for each MET standard.



Across the District Accolades

Student and staff accomplishments continue to be recognized at local, state and national levels. Most recent distinguished honors are as follows:

- Again making news in national publications, U.S. News and World Report, were Fox Tech, Travis Early College, and the Young Women's Leadership Academy (YWLA) for providing its students with one of the country's best educations. YWLA was awarded a Gold medal, Fox Tech was awarded a Silver medal and a bronze medal was awarded to Travis Early College. For the 2017 list, more than 22,000 of the nation's public high schools were assessed for college readiness.
- The Young Men's Leadership Academy principal was selected as the 2016 Educator of the Year for San Antonio City Council District 2. The award is representative of the teamwork and partnership the YMLA has with the community.

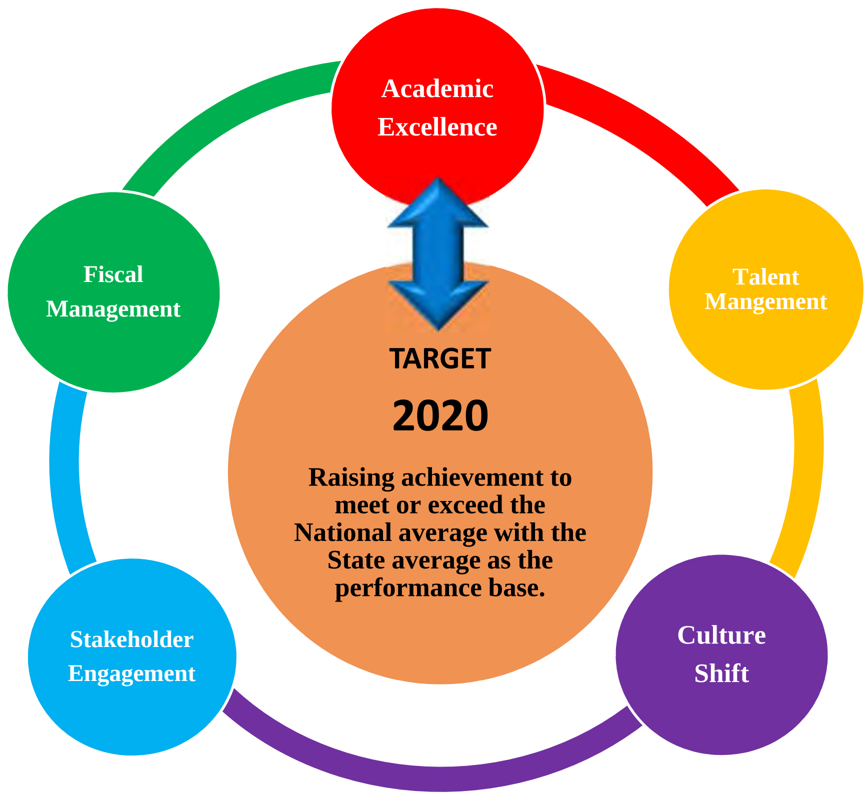
- From the class of 2017, six senior students were chosen by the Dell Foundation to receive $20,000 each to further their education. Two students represented Fox Tech HS and four represented Travis Early College HS.
- Fourteen students representing six District high schools were awarded from the Braumberger Endowment $5,000 each for 4 years provided they maintain at least a 3.0 grade point average and attend a state-supported or non-denominational Texas college or University.
- A trio of high school freshmen were selected to spend their next three summers in UT Health San Antonio's Voelcker Biomedical Research Academy. They will work with research faculty while also earning an annual monetary award. The freshmen are among 20 teens chosen citywide.
- Three more SAISD juniors are the latest District students to receive a 2017 Harvard Book award. This honor recruits the nation's brightest high junior and seniors to attend the Ivy League Harvard University. The students are from Brackenridge, Jefferson and Sam Houston HS.
- TEA announced that Travis Early College HS was one of 26 statewide campuses nominated for the 2017 National Blue Ribbon Schools recognition. It was nominated based on its overall academic excellence.
- A Travis Early College HS teacher was SAISD's recipient of the ExCEL award. The teacher was presented the 2016 award by KENS5 and the San Antonio Federal Credit Union. The ExCEL award included a $1,000, a golden apple trophy and a feature story aired on KENS5.
- Longfellow MS earned elite Advancement Via Individual Determination (AVID) certification. It is one of 15 schools in Texas among only 104 out of 4,273 US Secondary schools to earn this honor. Additionally, Longfellow is among only 10% of campuses worldwide to be named an AVID 2017 Schoolwide Site of Distinction.

District Initiatives

- The District embarked on an aggressive 5-year plan called "SAISD Blueprint for Excellence: Target 2020", which draws upon best practices to raise academic expectation for all students and elevate teaching for all classrooms. The plan is designed to prepare students for success from the moment they enter SAISD schools in pre-kindergarten all the way through to high school graduation well prepared for success in college and career. . .

  The Blueprint, shown below, serves as a cohesive educational plan that provides the support and resources needed to ensure our students meet critical achievement points designed to hoist students to the next level of learning.

- Strong literacy in pre-kindergarten through 3rd grades, with reading at grade level at the end of 3rd grade
- Advanced math in 5th grade and algebra in 8th grade
- Advanced college credit-bearing courses in the 11th and 12th grades



The plan also calls for significantly enhancing Gifted & Talented services, expanding the college-preparatory International Baccalaureate program, building more pre-Advance Placement courses into the middle school years and raising the bar at the high school level so students take more advanced courses, including more dual-credit courses, for which they can earn both high school and college credit. This means students will have the opportunity to graduate high schools with up to 45 hours of college credit which is the equivalent to 1 ½ years of college.

- SAISD became one of the first Districts in the Bexar County area to be named by the Texas Education Agency as a *District of Innovation Designation***.** The designation allows Districts freedom from state-level regulations to deliver instructional and support services in novel ways that improve student educational outcomes. The District chose to pursue this designation to inspire innovative practices and increase autonomy at the campus level. School officials expect changes to begin for school year 2017-2018.
- With the support of the SAISD Board, the superintendent set aside $3 million in support of student achievement to move toward achieving the five-year District academic goals. The funds were allocated in support of additional professional development, technology initiates, tutoring, and campus instructional supplies. Additional resources of nearly $1 million were approved for District-wide initiatives such as fine arts instruments, police

radios, library computers, organized sports for academy schools and Twilight School at the high school level.

- Over this spring break, staff and community volunteers accompanied 83 juniors on college tours across the country, through the District's Students on the Rise initiative. The tours, at a mix of colleges and universities, are intended to have a major influence on students and their college decisions by being able to experience the campuses in person and talk with college staff and current students.
- The District is actively expanding the International Baccalaureate Program currently at Burbank High School and Woodlawn Academy to other schools and other grade levels. Other SAISD Middle School Programme candidates are Harris and Longfellow middle schools. The announcement of authorization is expected during 2018. This rigorous program aims "to develop inquiring, knowledgeable and caring young people who help create a better and more peaceful world through intercultural understanding and respect."
- The debut of the District's International Welcome center for immigrant students, English-language learners and their families now provides an invaluable resource to help them feel right at home as they begin attending SAISD.
- Naviance, an online college and career guidance system was rolled out beginning this school year. Through Naviance, students can sign-up for college visits, create college lists, request transcripts, search for scholarships, etc. Some students refer to this as a "one-stop" site for college and career.
- A minimum compensation increase of 2.0% for teachers, classified, paraprofessionals, and all other employees was approved and implemented as part of the 2016-17 school year budget. The starting salary for new teachers, librarians and registered nurses increased from $50,000 to $51,500.
- The minimum hourly rate for non-exempt, permanent, full-time employees increased from $10 to $12 with the start of the 2016-17 contract year. The entire cost of all components of the compensation increase was $8.3 million for the General Fund. This Board action complimented the District's commitment to attract and retain the best and brightest teachers for our classrooms.
- To show appreciation for employees' continued commitment to work with San Antonio ISD for 15 years or more, the Board approved as part of the 2016-17 budget, a continuation of the longevity stipend of $500 for employees meeting the stated criteria.
- SAISD is becoming a pilot site, at the to-be-opened Brewer Academy, for a charter partnership with the John H. Wood charter District to provide educational services to students with severe emotional and/or behavioral problems directly related to their disabilities. All students will remain students of SAISD since the ultimate goal is to transition and integrate the students back into their home school when they are ready.

Where Communities Come Together

The District believes in working with its community since the success of our students plays an important part in the success of our city. On the next page, are just a few of the partnerships currently in place.

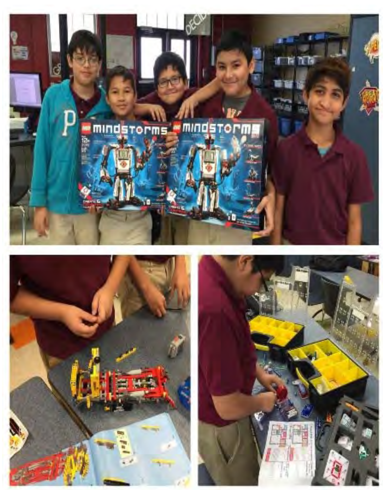
- Texas A&M University at San Antonio partnered with the District to offer free master's for 2 groups comprised of 20 participants per group–level teachers and reading coaches with the option of obtaining reading-specialist and master-reading teaching certifications. Teachers for the second cohort will begin taking classes this fall.
- Lamar Elementary and Trinity University have teamed up for learning. Lamar is the host site for Trinity's University's Professional Development School (PDS). Through this five year partnership, Trinity commits $20,000 a year to Lamar towards professional development.
- Trinity University has partnered with the District to create a PK-12 academy for advanced and creative learning. The academy will not only serve the needs of the children as well as serve as a new professional development school and learning laboratory for teachers and principals. The school will open its doors for the 2016-2017 school year to students in grades K-10. Pre-Kindergarten and 11th grade will be added in 2017-18 and 12th grade will be added in 2018-19. The academy also will serve as a learning lab through Trinity University to create a pipeline of highly trained teachers and leaders for SAISD campuses. A new San Antonio area nonprofit, City Education Partners (CEP), is providing grants to SAISD and Trinity for the new teacher training and innovative school design.
- An opportunity for over 200 District teachers is being offered over the next five years through two new innovative teacher programs in partnership with the Relay Graduate School of Education. Additionally, Ogden Elementary will become a laboratory school in 2017-18 accepting 25 or more teachers each year for 5 years. CEP is providing grants to support training and the laboratory school model.
- Through a partnership with the San Antonio Public Library, nearly 1,700 students representing all grade levels were able to obtain their own public library cards without needing to leave their schools. The library-card campaign is part of the District's focus on literacy and the collaboration will be ongoing.
- The District, in partnership with the The Culinary Institute of America (CIA), will implement a model industry curriculum at all SAISD culinary programs. The partnerships includes plans for additional teacher fellowships for training at CIA with the goal of extending the college-transfer credit opportunity to four more SAISD high schools.
- The Dee Howard Foundation and the District launched their aviation and aerospace collaboration at the Rhodes Middle School. The program covers the entire school year and is incorporated as part of the STEM curriculum during the school day. It includes hands on experiences at the school, fieldtrips to aviation and aerospace facilities both within the San Antonio area and outside of San Antonio and incorporate the expertise of industry professionals in the learning experience said the Dee Howard Foundation news.
- The District's newest high school, CAST (Center for Applied Science and Technology), has a capital fundraising campaign underway through the TechBloc-4-TechEd Foundation. Donations are anticipated from technology industry employers, foundations and contributors such as Frost Bank, H-E-B, AT&T and more to help build the campus. The new state-of-the art facility will focus on preparing students for careers in the fields of technology, entrepreneurship, and more.

- The District in collaboration with Boys and Girls Clubs of San Antonio; Greater San Antonio All Stars; Young Women Christian Association (YWCA); and City of San Antonio Department of Community Initiatives continue to offer an After School Challenge Program. Students who participate in the program receive homework and academic assistance, with emphasis in math and science, and have opportunities to enhance social awareness and physical skills through iPlay! activities. Also, children who participate in the After School Care programs are being served a snack and supper as part of the Food Service enhanced operations.
- A $5,000 funding generosity from bestselling author James Patterson, made it possible for the Bonham Academy library to update its collection of both English and Spanish language books to support the school's Reading Buddy Program. Also, as part of the grant an equal amount will be given to 1st-grade dual-language teacher Maria Rosales' classroom.
- Strategic University Partners - Five universities have partnered with the District to develop staff from within as better instructors and leaders. Some programs offer teachers an opportunity to pursue certification in bilingual education. In addition, for educators who aspire to campus leadership assignments, an opportunity to build leadership skills to sustain high levels of academic performance in any type of educational setting.

SAISD FOUNDATION

The mission of the San Antonio Foundation for Excellence in Education (Foundation) is to support San Antonio ISD to become one of the nation's leading urban school Districts through educational excellence and innovations. It serves as a catalyst for the District by supporting programs that aim to increase student achievement, recognize staff and teacher excellence, celebrate success across the District, and strengthen business and community partnerships. It is a goal of the Foundation to invest in the great ideas of educators and replicate the programs that demonstrate success. Since 2007, the SAISD Foundation has awarded educators over 1,722 grants and gifts to schools and invested more than $2.3 million to support the SAISD mission. Grant winners represent all grade levels, and thousands of students benefit from the projects.

Over the past decade hundreds of thousands of students have benefited directly from the following:



- **Innovative Grants.** This program funds grants to teacher and educators in the District for projects aimed to increase academic achievement, student engagement in the classroom, attendance and retention.

- **Mini-Grants.** Projects ranging from support of Scrabble, Lego, Robotics and Chess Clubs, to new reading programs, new software, music equipment, running clubs and much more.

- **Partnering with Museums.** Providing free educational field trips to District students and art instruction in some of our schools. Trips such as to the San Antonio Museum of Art (SAMA), Briscoe Western Art Museum, McNay Art Museum, Artpace and Witte Museum.

- **Strategic Initiatives.** This program includes technology based math intervention and reading interventions to increase reading level by third grade.

- **Teacher Grants.** In September 2016, 80 new teachers representing 39 schools were awarded $100 New Teacher Supply Grants to support the 9,300 students they teach. Teachers' supplies include: prototyping supplies, books to build classroom libraries, texts for guided reading groups, anatomy models, studio lamps, supplies for science experiments, math manipulatives, CD players and educational CDs for phonics, and sensory materials.

Key areas of grant funding include Science, Technology, Engineering and Math (STEM), Fine Arts and Enrichment. STEM investments help science and math come to life for students and bring dynamic relevance programs like a virtual learning studio, STEM Makerspace and coding clubs.

The Foundation supports music, strings, theater, photography and art clubs through teachers and art partnerships with S.M.A.R.T. (Supporting Multiple Arts Resources Together) which serve to bring out the importance of art in the students own neighborhood and the roles it plays in their community. The SAMA (San Antonio Museum of Arts) on the "Go" program serves to bring art and artifacts in the classroom which is designed to "Go" with what the teachers are teaching in the classroom. These are just a few examples of the many ways students grow in creative expression and engage in new art forms.

Enrichment funding includes a wide range of programs including co-curricular clubs such as chess, Spanish, reading, cooking, geocaching and many others. Enrichment projects often include the integration of new technology, hand-on learning tools and enhancements to the classroom environment. Enrichment activities increase the involvement of students, parents and teachers in their schools and provides opportunities for important social, emotional and health benefits.

Strategic Planning – Instructional and Fiscal

As the 17th largest school District in the State of Texas, the District is diligently planning for the future. Student enrollment drives the District's planning process along with Administration's commitment to providing the best education available to our students. The District's strategic planning is an ongoing process and is guided by the SAISD Blueprint for Excellence. It is exploring strategies that focus on instructional creativity and productivity, while reducing non-instructional expenditures through efficiencies and innovations, as well as restructuring programs not producing desired outcomes. The District intends to continue to focus on instructional outcomes and creating opportunities for our students.

Superintendent Pedro Martinez is leading the transformation of the District which is captured in the SAISD Blueprint for Excellence: Target 2020, and is defined by ten measureable 5-Year Goals. The blueprint draws upon best practices to raise academic expectations for all students and elevate teaching in all classrooms. While this plan includes numerous initiatives, Superintendent Martinez believes that two important drivers are talent management and innovation, and he continues to lay the groundwork to meet the District's bold academic goals.

Renovating and Building a Better SAISD

First of Three Consecutive Bond Programs

Back into early 2010, following an extensive study of the conditional of all SAISD facilities, a community-based committee developed a long-range master plan that would involve three consecutive bond programs to update and bring all schools up to standards. Bond 2010 for $515 million was the first bond. This enabled SAISD to make much needed upgrades across the District. A total of 68 school facilities benefited from Bond 2010, with 22 of those schools receiving major renovations. The District is proud of its achievement in delivering on-time, on-budget result for Bond 2010 projects. During May, the community celebrated the new Highlands High School, which received vast renovations under Bond 2010. The new campus, the largest project in that bond, included a new 2-story building to house the fine arts programs and the auditorium, as well as a new ROTC center and a college-readiness GO center. This dynamic metamorphosis will serve students, staff and the community for years to come.

The bond funded seven categories of improvements. They are as follows:

1. Renovations and Additions, $347.4 million provided for extensive renovations to 22 schools, 14 of which resulted in updated modern facilities. Included are infrastructure repairs and 8 classroom additions and renovations.

2. Career Education Enhancements, $73.8 million afforded new or upgraded facilities for 8 high school career programs; and the addition of career technology labs at 11 middle schools.

3. Safety and Security upgrades, $43.9 million for improved lighting, new fire alarms, key-card access control, security cameras and fencing at 68 schools.

4. Alamo Stadium and Convocation Center, $35 million provided for renovations for infrastructure involving electrical, lighting, landscaping and irrigations; ADA access and convocation center play areas, seating, restrooms, locker rooms, concessions, press boxes, storage, sports lighting, sound and security systems.

5. Technology Upgrades, $6.2 million for new classroom computers and related hardware to replace aging equipment and provide increased student access to technology for 68 schools.

6. Playgrounds and Track Resurfacing, $6.1 million for new or improved playground equipment for 45 elementary/PK-8 schools; and all-weather track resurfacing and lighting at seven high schools for use by students and surrounding community.

7. Transportation Efficiency, $2.5 million for necessary space for a new bus transportation facility, resulting in shorter bus travel distances, and supports consolidation of all transportation, maintenance and facilities operations for additional cost savings and operational efficiency.

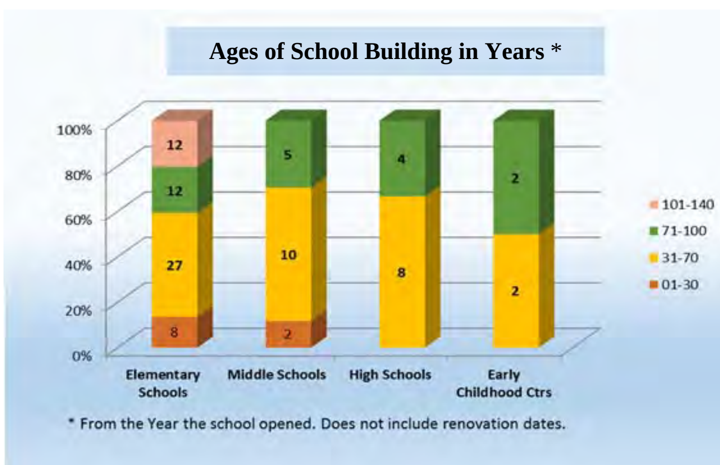
Second of Three Consecutive Bond Programs

Much was accomplished through Bond 2010, however, there were still many more facilities that did not have the proper working and learning conditions for staff and students. Two separate ballot propositions i.e., a $450 million bond and Tax Ratification Election (TRE) to support school building renovations, 21st Century classrooms and increased academic support were pursued.

On November 8, 2016, the voters of the District passed, with more than a 70% voter approval rate, two separate ballot propositions to support school renovations, 21st century classrooms, and increased academic support. The first of the two propositions that passed was a $450 million bond authorization which will fund major renovations for 13 schools. The proceeds from this bond will be used to replace outdated infrastructure systems, upgrade science labs, and expand classroom spaces. The second of the two propositions that voters passed was the Tax Ratification Election (TRE) to increase the District's Maintenance & Operations (M&O) tax rate by 13 cents. The increase in the M&O tax rate will bring in an estimated $32.1 million in additional annual operating revenue, which will support increased academic offerings for students, enhanced technology for classrooms, and upgrades to the learning environment that are not part of the 2016 Bond.

A general schedule for major projects includes a year of design, three months of bidding and awarding to contractors, and two years of construction. Some projects may require as many as three years of construction due to phasing to ensure safety and limit disruption to students and staff.

The graph below depicts the ages of the District's Elementary, Middle, and High Schools and the Early Childhood Education Centers as of June 30, 2017.



Debt Management Program

In November 2, 2010, the voters of the District approved a $515 million bond proposition to finance renovations and upgrades to District facilities where some buildings are more than 100 years old, and almost half are more than 50 years old. In the effort to manage the Interest & Sinking (I&S) tax rate and take advantage of unique financing opportunities, the District has issued the following:
$151,450,000 Unlimited Tax School Building Bonds, Taxable Series 2010B (Direct Subsidy) – Build America Bonds (BAB's). At the time of the sale, the District was eligible to receive a subsidy payment from the US Treasury equal to 35% of interest payable on the BAB's. As a result of sequestration, the subsidy is subject to a reduction that is determined by the IRS on an annual basis.

For the time period of October 1, 2016 – September 30, 2017 the subsidy amount was subject to a reduction of 6.9%.

On May 18, 2011, the District successfully priced the $99,085,000 Unlimited Tax Refunding Bonds Series 2011. The Refunding Series 2011 Bonds resulted in debt service net present value savings of $12,120,343.

$61,115,000 Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 - Direct Subsidy Bonds (QSCB's). At the time of the sale, the District was eligible to receive a subsidy payment from the US Treasury equal to the amount of interest payable on the QSCB's. As a result of sequestration, the subsidy is subject to a reduction that is determined by the IRS on an annual basis. For the time period of October 1, 2016 – September 30, 2017 the subsidy amount was subject to a reduction of 6.9%.

In April 2014, SAISD Implemented a $100 Million Tax-Exempt Commercial Paper Program (TECP Program). This financing provided an interim financing vehicle that allowed the District to take advantage of the historically lower short-term rates which effectively decreased the "carry cost" for the District. The Program also provided the flexibility to issue notes as needed to pay expenditures.

On August 26, 2014, the District successfully sold $48,880,000 of Series 2014B Variable Rate Unlimited Refunding Bonds with an initial 4-year interest rate term and an interest rate of 1.15%. The District followed up this sale on August 27th with an additional $48,795,000 of Series 2014A Variable Rate Unlimited Refunding Bonds with an initial term of 3-years and an interest rate of 0.83%. The bonds were sold to refund $100 Million of outstanding TECP Program notes. The sale of the Series 2014A Variable Rate Unlimited Refunding Bonds took place in the Board Room of the San Antonio Independent School District and presented the opportunity for five SAISD students from the Lanier Magnet School of International Banking & Business to observe the pricing of the sale of the bonds.

On May 12, 2015, the District successfully priced the $307,290,000 Unlimited Tax School Building and Refunding Bonds Series 2015. The Refunding Series 2015 Bonds are a combination of a Refunding of $239,680,000 of Series 2005 Bonds, Refunding of $99,600,000 in Outstanding TECP and new money in the amount of $2,435,000. The refunding of the Series 2005 bonds resulted in debt service net present value savings of $34,745,310. Through the District's debt management strategy, it has allowed SAISD to keep the I&S tax rate at levels well below the maximum rates promised to the voters in the November 2010 election.

On May 19, 2016, the District successfully priced the $123,740,000 Unlimited Tax School Building and Refunding Bond Series 2016. The Refunding Series 2016 Bonds are a combination of a Refunding of $45,645,000 of Series 2006 Bonds, Refunding of $36,925,000 in Outstanding TECP and new money in the amount of $62,400,000. The refunding of the Series 2006 bonds achieved a debt service net present value savings of $8,375,195.

With the outstanding principal amount of the TECP notes now at a zero balance, the District terminated its Credit Agreement relating to the TECP program on June 21, 2016. The Dealer Agreement relating to the notes was canceled on February 22, 2017. As the District moves closer to the implementation of Bond 2016, the reinstatement of the TECP Program will be considered depending on interest rates, market conditions, and other economic factors.

On June 28, 2017, the District went out in the market to convert $46,480,000 of the Variable Rate Unlimited Refunding Bonds Series 2014A to a fixed rate structure. The transaction closed in August 2017. Despite challenging market conditions and upward yield movement during the day of pricing, the District and its underwriters were very successful in this transaction, which saw 10 new investors to SAISD's credit participating in the sale. The deal was overall 2.2x oversubscribed with maturities in the longer end of the yield curve having an oversubscription of up to 3.6x. The true interest cost of the transaction is 3.356% with an average annual debt service of $2,648,719. The sale of these bonds took place at Frost Bank, the District's Financial Advisor, and allowed students from Lanier High School and Young Women's Leadership Academy to attend and witness firsthand how their School District finances its projects through the sale of bonds.

While the 2016 Bond program is still in the planning phase, soon the District will begin construction on 13 schools receiving major improvements. When the District enters the market for future bond sales, it will continue to make student involvement one of its priorities. Giving students, on the day of pricing, the opportunity to interact with bankers, financial advisors, attorneys, District staff, and Board Trustees, allows them to learn about the various roles and careers in the financial industry, provides insight on how their schools' projects are funded, and illustrates the importance of teamwork. The District's commitment to being "Student Centered" has been featured in publications such as *The Bond Buyer* and has garnered tremendous support and interest from the community.

Budgetary Controls

The annual budget serves as the foundation for the District's financial planning and control. The District's 2016-2017 reporting period began July 1, 2016 and ended June 30, 2017. The preparation of the budget now commences in October under the direction of the Superintendent of Schools. The Board reviews the budget during workshops conducted between February and June. Recommendations from schools, parents, employee groups, and stakeholders of the District are considered during the budget process. The final amended 2016-2017 budget was approved by the Board of Trustees on June 19, 2017. The District maintains budgetary controls to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Trustees. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is established by major functional category.

Activities of the General Fund, the Debt Service Fund, and the Child Nutrition Program Fund, are included in the annual appropriated budget. Budget-to-actual comparisons are provided in this CAFR for these funds. For the General Fund, the comparison is presented in Exhibit G-1, as required supplementary information. For the Child Nutrition Program Fund and Debt Service Fund, the comparisons are presented as required TEA schedules in Exhibits J-4 and J-5, respectively.

Long-Term Financial Planning

The District has maintained a healthy fund balance to ensure that resources are available when needed to meet unexpected revenue shortfalls and fund one-time expenditures that may exceed the annual budgeted revenue. The District, because of its continued cost containment efforts, improved operating efficiencies, budgetary and financial planning, has been successful in increasing the General Operating Fund Balance each year since 2006-07.

Legislative Changes

The Texas Legislature meets in regular session in odd-numbered years. During these sessions, the Legislature approves the state budget, which includes funding for local public school districts. The 85th Legislative Session convened in January 2017, and also included a special session called by Governor Abbott. The budget was approved on Saturday, May 27, 2017, and included many education bills effective for the school years 2017-18 and 2018-19.

According to a Legislative Summary published by Moak, Casey & Associates on June 15, 2017, the major State Funding items with an impact to school Districts included the following:

- There was an increase to the "Austin Yield" component of the Foundation School Program (FSP) funding, increasing the factor from $77.53 to $99.41 for 2017-18 and to $106.28 for 2018-19. This change will yield more than $18 million to SAISD over the two years of the biennium. The change to the "Austin Yield" cost the State $1.5 billion for the biennium.
- There was no increase to the Basic Allotment during this legislative session, so it will remain at $5,140 for both years of the biennium.
- The State also is funding expected student enrollment growth at a projected cost of $2.7 billion for the biennium.
- HB 4 is a bill that was passed during the 2015-17 biennium to provide grant funding of up to $1,500 per eligible 4-year-old student for a high quality Pre-Kindergarten program. Unfortunately, there was no funding allocated to continue this program, which SAISD did take part in. The program was restructured to utilize existing Pre-K funding, and ensure that districts receiving this funding allocate a minimum of 15% toward meeting the requirements of a "High Quality Pre-Kindergarten" program.
- This year, there was no new round of funding added for the Instructional Facilities Allotment (IFA). However, HB 1081, regarding the New Instructional Facilities Allotment (NIFA), enacted a change that will benefit the District. In addition to increasing the potential assistance from $250 per ADA up to $1,000 (based on availability of funds), the bill redefined "instructional facilities" to include "newly constructed, repurposed, and leased facility operating for first time with a minimum lease of no less than 10 years." This bill may benefit CAST Tech HS, and possibly new investments in a previously vacated building.

Local Funding

Local property values in the District increased approximately 10.0% over the prior year, providing welcome help to the financing of the construction program. The current debt service (I&S) tax rate is more than 7 cents below the tax rate that was projected for the voters at the time of the Bond 2010 election. The District's total tax rate for fiscal year 2017 increased due to the successful Tax Ratification Election on November 8, 2016, which increased the maintenance & operations (M&O) tax rate from $1.04 to $1.17 per $100 of property valuation. Additionally, the voters did authorize a $450 million bond initiative in support of renovations for 13 schools.

State Funding

According to the Texas Education Agency, "the Foundation School Program (FSP) is the program that establishes how much state funding school districts and charter schools are entitled to receive. Formulas are set in statute (Chapters 41, 42 and 46), and they consider both student and district characteristics, including the number and type of students enrolled, district size and geographic factors, and local taxable property values and tax rates. Generally, once entitlements are established, the formulas determine how much a district can generate locally through property taxes before making up the difference with state funds."

There has been much controversy in Texas regarding the adequacy and equity of its public school funding system. In 2014, more than half of the Texas school districts filed a lawsuit over $5.4 billion in funding cuts in 2011. State District Judge Dietz issued a verbal ruling in 2015 that the Texas' method for paying for public education is unconstitutional because it is "unfairly distributed among schools in wealthy and poor areas." However, on May 13, 2016, the Texas Supreme Court did not affirm this opinion, and ruled that the school funding system "is undeniably imperfect, with immense room for improvement. But it satisfied the minimum constitutional requirements." So, the Foundation School Program remains the primary mechanism for determining how school Districts receive their annual funding from the State.

For the year ending June 30, 2017, State funding represents about 57% of the total General Fund revenue. As noted above, the 85th legislative session did provide additional funding for school Districts by increasing the "Austin Yield" component of the Foundation School Program, but did not increase the amount for the "Basic Allotment" and also did not continue to fund the grants made available to Districts in the last biennium to provide a high quality Pre-Kindergarten program.

Federal Funding

San Antonio ISD was impacted by multiple years of mandated Federal sequestration of funds, primarily impacting Federal entitlements such as Title I, II and III, as well as IDEA-B funding for Special Education. Certain federal grants such as Head Start and After School Challenge Program were also reduced as a result of federal sequestration. While the District did not experience sequestration for the 2016-17 school year, it is unlikely that SAISD will be restored to pre-sequestration levels. Fortunately, the District is the beneficiary of several Federal grants such as Head Start, Gear-Up, Texas Literacy Initiative, and most recently the Teacher Incentive Fund. These impactful grants are instrumental in helping the District move toward the 5-Year goals as outlined in the SAISD Blueprint for Excellence.

Impact of Interest Rates

After a seven year period of historically low interest rates, the U.S. finally saw the first rate hike in December 2015, where the Fed increased its overnight Federal Funds Rate target range to 0.25%-0.50%, up from its previous target of 0%-0.25%. From there rates remained level until after the November 2016 election when the Fed increased its target to 0.50% to 0.75%, followed by two additional rate hikes in March and June of 2017. The overnight Federal Funds rate at the end of September 2017 was 1.06%. The increase in rates have allowed the District to increase its return on investments and have presented opportunities for the District to invest further down the yield curve. Without Board approval, the District's current investment policy prohibits the investment of any security that matures more than two years from the date of purchase. At the end of September 2017, the yield on a two-year Treasury was 1.47%.

Child Nutrition Program

The mission of the SAISD Child Nutrition Services is to enhance the learning and health of our children by nourishing their bodies and minds through healthy, nutritious meals that meet or exceed the Federal requirements set forth by the National School Breakfast and Lunch Programs. By maintaining a standard of excellence it enables Child Nutrition Services to provide support services to each campus in a way that helps schools to improve student academic performance, attendance and behavior.

The Child Nutrition Program continues to provide services to each campus and enhance its operations. As a result of the administrative team's continued effort to streamline operations, increase meal participation, cut costs and increase revenue, the program has been able to build its fund balance to $9.0M for 2016-2017. Child Nutrition recognized a small loss in 2016-2017 due to the purchase of new equipment and the change in breakfast in the classroom (BIC) serving methods. Also for the 2016-2017 school year, the department continued the Community Eligibility Provision (CEP). CEP allows all students to eat breakfast and lunch free of charge regardless of student eligibility. The District's top priority is to ensure that each child receives a healthy breakfast and lunch. Child Nutrition Program balances and results of operations are reported in Exhibits H-1 and H-2, respectively.

The District serves students meals through several Texas Department of Agriculture school nutrition programs. Students are served breakfast through the School Breakfast Program, lunch and after-school snacks through the National School Lunch Program, and afternoon snacks are provided to Head Start students through the Child and Adult Care Food Program. Currently, the District offers Head Start at 19 campuses. For 2016 – 2017, afterschool meals (supper) were served to approximately 4,500 students who participated in the After School Care Programs at 76 campuses. The Child and Adult Care Food Program provides reimbursement for afterschool meals.

An innovative way implemented to increase students partaking of the nutritious foods served at school was through a "culinary competition". Judges comprised of students sampled and evaluated items for consideration for school menus. New menu items competing for breakfast and lunch included cheese and salsa empaῆda, a Philly cheese steak and cheese pinwheel, honey Siracha boneless wings, a sausage calzone made with a meatless protein, along with vegetarian options.

The District also participates in the Fresh Fruit and Vegetable program. This program is currently offered at 22 campuses, and students are offered the opportunity to taste a wide variety of fruits and vegetables. Servings of fresh fruits and vegetables are provided at other than standard meal periods, at no cost. The District realized $871,350 under this program for 2016-2017.

The District is reimbursed based on the number of breakfasts and lunches served as well as on the number of after-school and Head Start afternoon snacks served, and the afterschool meal. The District is reimbursed at the free rate for 99.3% of total breakfast and lunch meals served for those campuses participating in CEP. The District has decided to pay for reduced price and paid breakfasts and lunches served for Edison, Fox Tech, Travis Early College, Young Women's Leadership Academy, and Fox Tech Advanced Learning Center, and for 2017-2018 the five new schools consisting of Twain Dual Language Academy, Steele Montessori, Gonzales ECE, Nelson ECE, and Cast High School will also be reimbursed by the District. These ten campuses are reimbursed on the number of free, reduced, and paid breakfast and lunches served. Each year, the federal reimbursement rates increase. The rates are increasing by 2.32% for lunch, 2.70% for breakfast, and 2.14% for supper from 2016-2017 to the 2017-2018 school year.

Current and historical reimbursement rates for the School Lunch Program and the School Breakfast Program are provided in the tables that follow.

		School Lunch		
School Year		Paid	Reduced	Free
2017-2018		$ 0.39	$ 2.91	$ 3.31
2016-2017		$ 0.38	$ 2.84	$ 3.24
2015-2016		$ 0.37	$ 2.75	$ 3.15
2014-2015		$ 0.36	$ 2.66	$ 3.06
2013-2014		$ 0.36	$ 2.61	$ 3.01

		School Breakfast		
School Year		Paid	Reduced	Free
2017-2018		$ 0.30	$ 1.79	$ 2.09
2016-2017		$ 0.29	$ 1.74	$ 2.04
2015-2016		$ 0.29	$ 1.69	$ 1.99
2014-2015		$ 0.28	$ 1.63	$ 1.93
2013-2014		$ 0.28	$ 1.59	$ 1.89

Includes Severe Need Allocation for Districts with 40% or more economically disadvantaged

The Child Nutrition Department implemented the Nutrikids system in 2013. This system streamlines the counting and claiming process as well as the application process. The Nutrikids system has internal checks and balances to prevent over claiming and ensure accuracy.

The Child Nutrition Department received an equipment grant for the 2016-2017 school year in which a “themed food truck serving line” was purchased for Brackenridge High School. The truck serves a build your own taco bowl, chili cheese dogs, nachos, and a spicy hoagie sandwich. When combined with the other reimbursable components, all of these entrees are included as part of the reimbursable meal.

The Child Nutrition Department observed a decrease in food costs for 2016-2017. The decrease was due to the decline in breakfast meals served. The Child Nutrition Program allowed several options to service breakfast for the 2016-2017 school year, modifying the current BIC system. Campuses were not able to maintain their current breakfast rates which caused a huge decline in the number of breakfasts served. Child Nutrition continues to monitor menus, warehouse orders, and weekly and monthly review of food expenses to track any changes and make adjustments as needed.

The Child Nutrition Department continues looking at ways to increase the fund balance. A positive fund balance can be re-invested into the Child Nutrition Department to purchase items such as capital equipment. In 2016-2017 the department maintained at $9.0M fund balance. By maintaining a healthy fund balance, Child Nutrition purchased equipment for the new school opening in 2017-2018 to include a dishwasher, refrigerator, oven, steamer, milk coolers, ice machines, hot food serving lines, and heating cabinets. The constant monitoring of the Child Nutrition revenues and expenses enables to department to maintain profitability when labor and food expenses increase; as well as, allowing the department to invest in equipment.

Retirement Benefits

The District participates in the Social Security/Medicare program and continues to match the 7.65% currently required of employees. This is an added benefit to District employees, who can collect benefits from Social Security in addition to the Teacher Retirement System of Texas (TRS) when they are eligible to retire. The District's contributions to Social Security/Medicare totaled $27.00 million while annual required contributions to the TRS totaled $8.6 million. The District contributed an additional $2.4 million for the TRS care program (retiree health plan) for fiscal year 2017.

Other Employee Benefits

A minimum monthly contribution of $428.83 for "employee only" health, dental, and life insurance coverage is paid for by the District as part of the benefits package for eligible employees. The plans are:

- Health Insurance (choice of 3 plans)
- Dental Insurance
- Life Insurance $10,000

Financial Awards and Recognition

Throughout the years, the District has demonstrated to the school Board, community and the financial marketplace its commitment to effectively and prudently manage funds by earning coveted recognition for budgeting, financial reporting and performance from national and state level.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report (CAFR) for the twelve months ended June 30, 2016. This marks the twenty-ninth consecutive year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that the 2017 CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

- **Certificate of Excellence in Financial Reporting**

  The Association of School Business Officials International (ASBO) awarded its Certificate of Excellence in Financial Reporting to the District for the 2015-2016 fiscal year. This award certifies that the CAFR for the twelve months ended June 30, 2016 conforms to the principles and standards of financial reporting as recommended and adopted by the ASBO. The District deems that the 2017 CAFR, which will be submitted to ASBO for review, also conforms to these principles and standards.

  The award conferred for thirty-seven consecutive years to the District represents a very significant achievement and reflects the District's commitment to the highest standard of school system financial reporting.

- **Distinguished Budget Presentation Award**
  The District received the GFOA Budget Presentation Award for the twelfth consecutive year. The budget awards program encourages governments to prepare budget documents of the highest quality to meet the needs of decision-makers and citizens.

- **Meritorious Budget Award**
  The District received from ASBO the Meritorious Budget Award for the eleventh consecutive year. This award recognizes excellence in school budget presentation and demonstrates the District's commitment to sound fiscal management practices. The program encourages both short and long-range budget goals in order to promote effective use of educational resources.

- **School FIRST Rating**
  For the 2016-17 school year, based on the 2016 fiscal data, the District earned the highest rating of "A for Superior Achievement" for the Texas Education Agency's School FIRST program. The purpose of School FIRST (Financial Integrity Rating System of Texas) is to ensure that school Districts are held accountable for the quality of their financial management practices. The FIRST ratings are based on an expanded set of financial indicators, such as on administrative cost expenditures, the accuracy of District financial information submitted to TEA; and any financial vulnerabilities or material weaknesses in internal controls as determined by an external auditor. The system is designed to encourage Texas school Districts to improve performance in the management of their financial resources in order to provide the maximum allocation possible for direct instructional purposes.

Acknowledgements

The preparation of the CAFR was accomplished through the commitment, dedication and efforts of the entire staff of Financial Services. We wish to thank other departments throughout the District for the contributions made in the preparation of this award class report. We, also, would like to acknowledge our independent auditors, Garza/Gonzalez and Associates, for their role in providing professional guidance and leadership in developing the annual report. Our thanks to the Board of Trustees for their leadership and support of excellence in financial reporting and fiscal integrity. Finally, we would like to express our gratitude to the citizens of San Antonio ISD for their continued support of our school District.

Respectfully Submitted,

Pedro Martinez Superintendent of Schools	Larry A. Garza, Assoc. Superintendent Financial Services and Business Operations

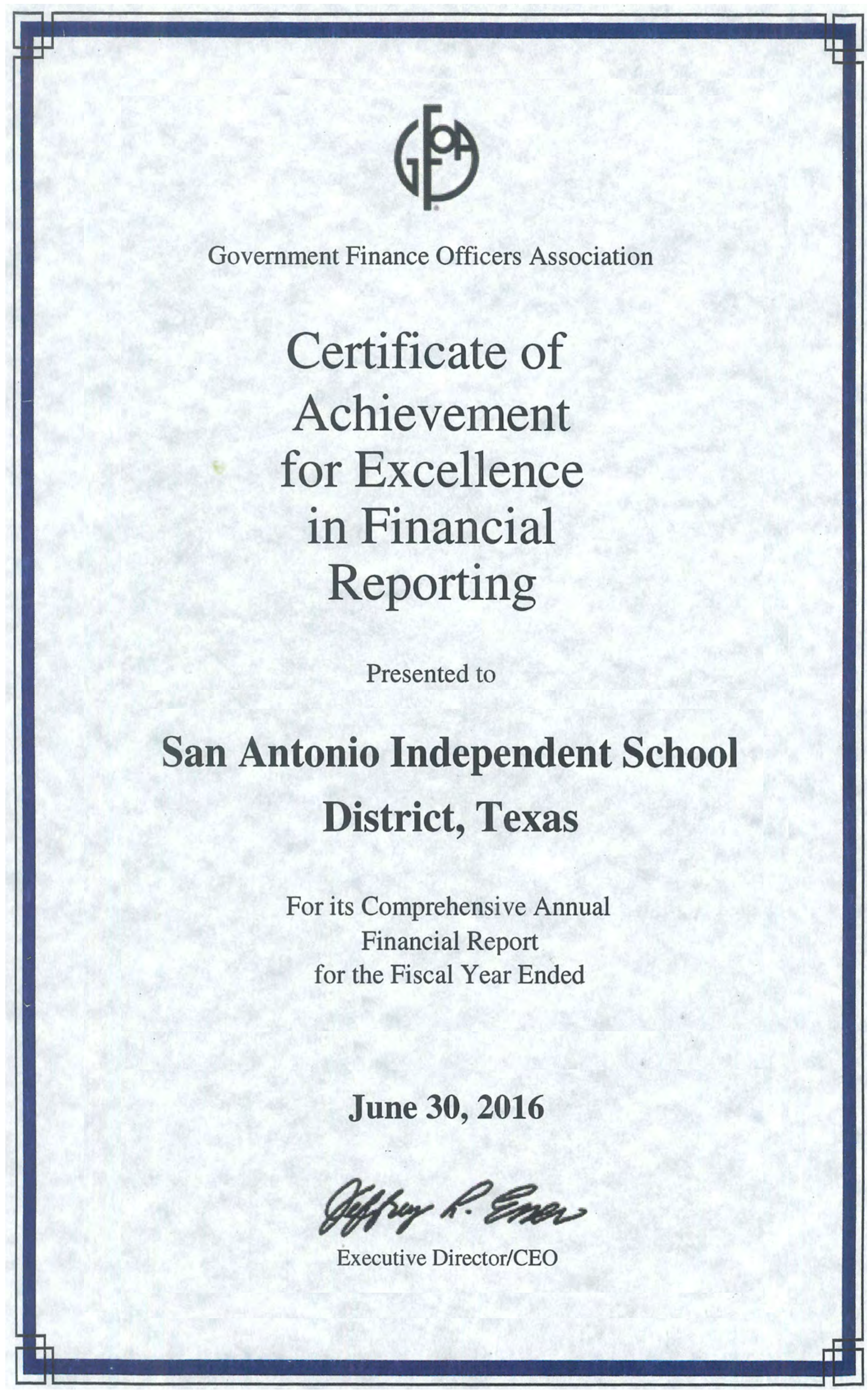
SAISD

Awards for Excellence in Financial Reporting

GOVERNMENT FINANCE OFFICERS ASSOCIATION (GFOA) AWARD

The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to San Antonio ISD (SAISD) for its Comprehensive Annual Financial Report (CAFR) for the fiscal Year ended June 30, 2016. The certificate of Achievement for Excellence in Financial Reporting is a prestigious, national award, which recognizes conformance with the highest standards for preparation of state and local government CAFRs.

In order to receive a Certificate of Achievement in Financial Reporting, a governmental unit must publish a CAFR whose contents conform to program standards of creativity, presentations, understandability, and reader appeal. In addition, this report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. SAISD has received the Certificate of Achievement in Financial Reporting for twenty-nine (29) consecutive years.



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

San Antonio Independent School District, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

SAISD

The Certificate of Excellence in Financial Reporting
is presented to

San Antonio Independent School District

for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2016.

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.

Anthony N. Dragona, Ed.D., RSBA
President

John D. Musso, CAE, RSBA
Executive Director

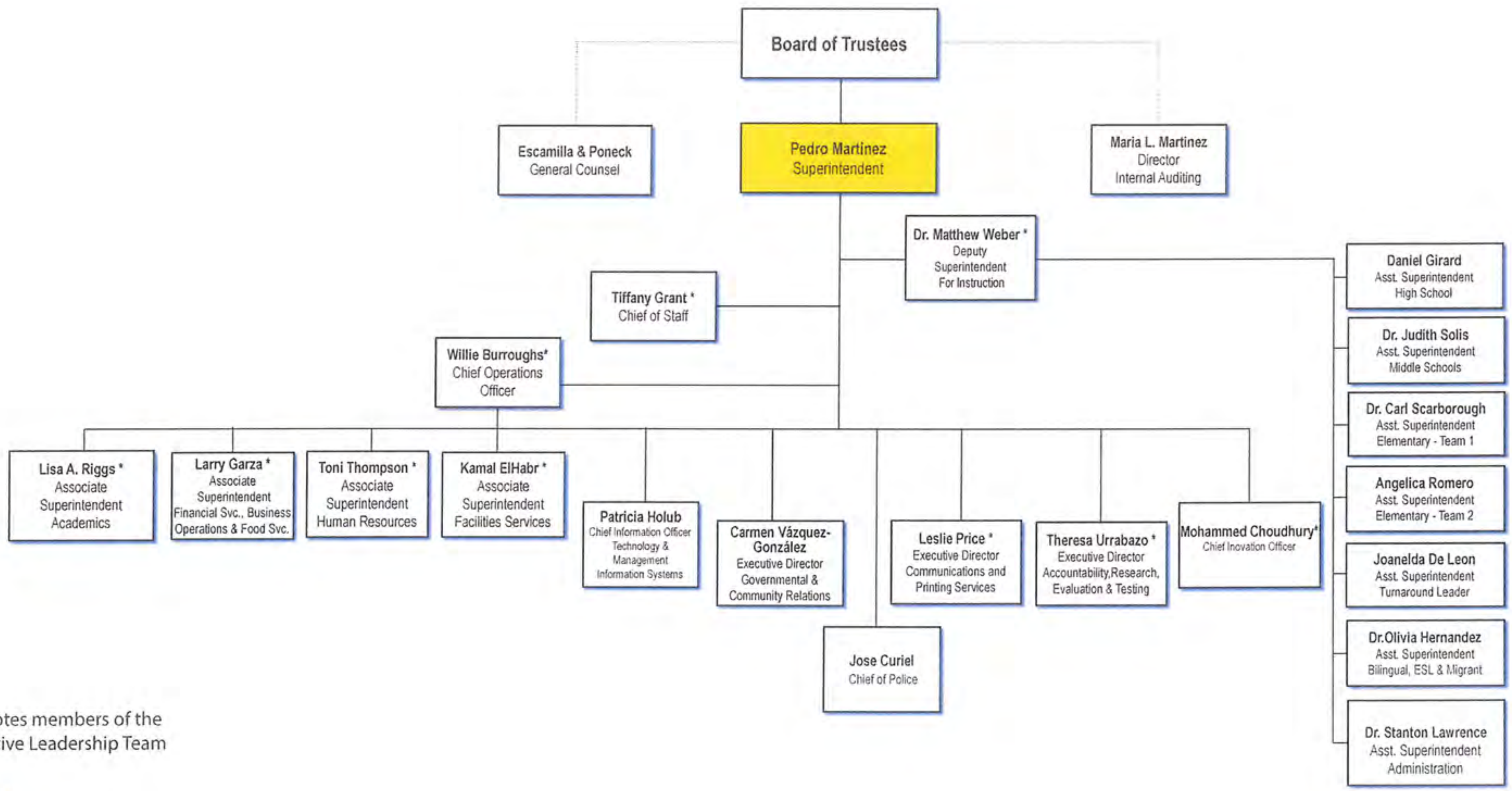
ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL (ASBO) AWARD

The ASBO awarded a Certificate of Excellence in Financial Reporting to San Antonio Independent School District (SAISD), for the thirty-seventh (37) consecutive year, for its CAFR for the fiscal year ended June 30, 2016. This nationally recognized program was established by ASBO to encourage school business officials to achieve a high standard of financial reporting. The award is the highest recognition for school financial division operations offered by ASBO, and it is only conferred upon school systems that have met or exceeded the standards of the program.

Participation in the Certificate of Excellence in Financial Reporting program validates SAISD's commitment to fiscal and financial integrity and enhances the credibility of SAISD operations with the school board and the community. The program reviews the accounting practices and reporting procedures used by SAISD in its CAFR based upon specific standards established by the Governmental Accounting Standards Board (GASB).

SAISD

San Antonio Independent School District



* Denotes members of the Executive Leadership Team

March 2017

SAISD

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

Pedro Martinez
Superintendent

SUPERINTENDENT'S CABINET

Dr. Matthew Weber
Deputy Superintendent
Instruction

Kamal ElHabr*
Associate Superintendent
Facilities Services

Dr. Stanton Lawrence
Asst. Superintendent
Administration

Theresa Urrabazo
Executive Director
Accountability, Research, Evaluation & Testing

Dr. Judith Solis
Asst. Superintendent
Middle Schools

Daniel Girard
Asst. Superintendent
High Schools

Larry A. Garza*
Associate Superintendent
Financial Services, Business Operations and Food Service

Willie Burroughs*
Chief Operations Officer

Dr. Carl Scarborough
Asst. Superintendent
Elementary Schools - Team 1

Carmen Vázquez-González
Executive Director
Governmental & Community Relations

Lisa A. Riggs
Associate Superintendent
Academics

Tiffany Grant
Chief of Staff

Dr. Olivia Hernandez
Asst. Superintendent
Bilingual, ESL and Migrant

Toni Thompson*
Associate Superintendent
Human Resources

Mohammed Choudhury
Chief Innovation Officer

Patricia Holub
Chief Information Officer
Technology & Management Information Systems

Leslie Price*
Executive Director
Communications & Printing Services

Jose Curiel
Chief of Police

Angelica Romero
Asst. Superintendent
Elementary Schools - Team 2

Joanelda DeLeon
Asst. Superintendent
Turnaround Leader

*Denotes member of the Executive Leadership Team

CERTIFICATE OF BOARD

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT	BEXAR	015-907
Name of School District	County	Co. Dist. Number

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

Patti Radle
Patti Radle
Board President

Debra Guerrero
Debra Guerrero
Board Secretary

SAISD

SAISD

San Antonio Independent School District

SAISD

Financial Section

SAISD

Garza/Gonzalez & Associates
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of School Trustees
San Antonio Independent School District
San Antonio, TX

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Antonio 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

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San Antonio, TX 78215
210/227-1389
Fax 227-0716

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, other supplementary information, 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 also 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 other supplementary information, 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 27, 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 the 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.

Garza/Gonzalez & Associates

October 27, 2017

SAISD

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the San Antonio Independent School District (District), we are providing readers of the District's financial statements this narrative overview and analysis of the District's financial activities for the year ended June 30, 2017. Please read it in conjunction with the transmittal letter, which begins on page -v-, and the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position as reflected in the government-wide Statement of Net Position was $440,435,515 at June 30, 2017. This amount was negatively impacted with the third year of Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions by the net amount of $90,963,286.

- The District's Statement of Activities reflects an increase in net position for Governmental Activities in the amount of $34,476,250. This is a result of expenses being less than the $682,336,302 generated in taxes, state aid, investment earnings, and other revenues such as charges for services and grants. In addition the District received $2,852,855 in insurance settlements as a result of a hail storm.

- The General Fund reported a fund balance in the governmental funds financial statements this year of $97,777,807. Approximately 89% of this total amount, $86,871,777, is available for spending at the District's discretion (unassigned fund balance).

- As shown on the Statement of Activities, property tax revenues increased $43,436,779, or 22%, from the prior year due to a $1,795,542,512 increase in property values. The 2016-17 tax rate is $1.5126 per $100 assessed valuation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

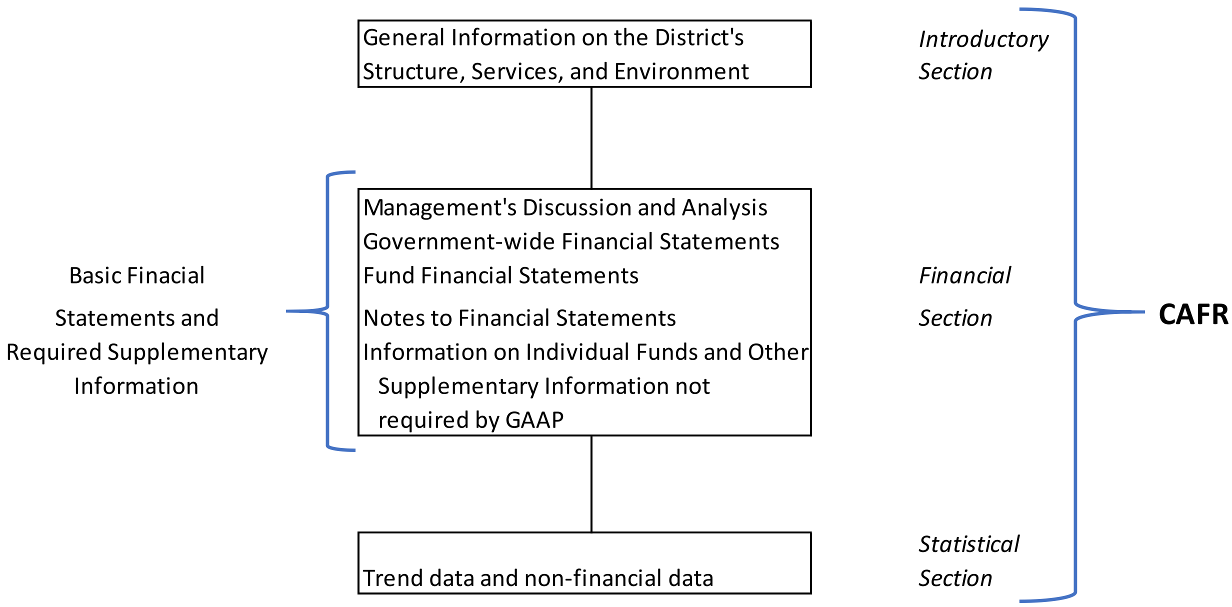
Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. The governmental funds statements show how general government services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The proprietary funds statements reflect the activity related to services provided to parties within the District, for the District's workers compensation, medical and dental insurance programs. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government. The notes to the financial statements provide narrative explanations or additional data needed for full disclosure of the government-wide statements or the fund financial statements.

The combining statements for non-major governmental funds and the combining statements for internal service funds contain even more information about the District's individual Special Revenue and Permanent Funds and Internal Service Funds, respectively. The Statement of Changes in Assets and Liabilities for the agency fund is also included. These combining statements are additional supplementary information and not required by Texas Education Agency (TEA). The sections labeled Required TEA Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1

Components of the District's Comprehensive Annual Financial Report (CAFR)



Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The primary objective of the analysis is to show whether the District is better or worse off as a result of the year's activities. The Statement of Net Position includes all of the District's assets and liabilities, while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the same basis of accounting used by most private sector companies- the full accrual basis.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into one of the following two categories: (1) those provided by outside parties who share the costs of some programs, such as tuition received from students outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or children from disadvantaged backgrounds (program revenues), or (2) general revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All assets of the District are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and its change. The District's net position (the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources) provides one measure of the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, nonfinancial factors should be considered as well; such as, changes in the District's average daily attendance, its property tax base, and the condition of the District's facilities.

The District's government-wide net position has improved as evidenced by the increase in government-wide net position; however, the weighted average daily attendance (WADA) continues to decline. Due to this decline in attendance, the District continues to assess facilities and staffing allocations to ensure that the students' needs are best served.

While the District's property tax base has enjoyed growth for most recent years, the state funding methodology minimizes the benefit of additional increases in taxable property. Foundation School Program state funding, which is the District's largest portion of state funding, is based on property values, so as values increase, the state funding decreases. The Instructional Facilities Allotment and the Eligible Debt Allotment also decrease with increases in property values.

The District's governmental activities are presented in the Statement of Net Position and the Statement of Activities. All of the District's basic services are reported as governmental activities; including, instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance these activities.

Reporting the District's Funds

Fund Financial Statements

The fund financial statements provide detailed information about the District's funds - not the District as a whole. Laws and contracts require the District to establish funds to account for various grants received. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

- *Governmental Funds* – The District reports most of its basic services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's financial condition, general operations, and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements. The governmental fund activities and balances are reported in Exhibits C-1 and C-3.

- *Proprietary Funds* – These funds report activities where the District charges users for services. There are two types of proprietary funds, enterprise and internal service funds. The District does not have any enterprise funds but has three internal service funds to account for its workers compensation, medical insurance and dental insurance programs. The District's combined activities for its internal service funds are reported in Exhibits D-1, D-2, and D-3. These activities are also reported individually for each internal service fund in Exhibits H-3, H-4, and H-5.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. Money raised by student activities is recorded in the District's agency funds. All of the District's fiduciary activities are reported in Exhibit E-1, Statement of Fiduciary Assets and Liabilities. We exclude these resources from the District's other financial statements because the District cannot use the resources to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position serves as a useful indicator of the District's financial health. The District's assets and deferred outflows exceeded liabilities and deferred inflows by $440,435,515 as of June 30, 2017.

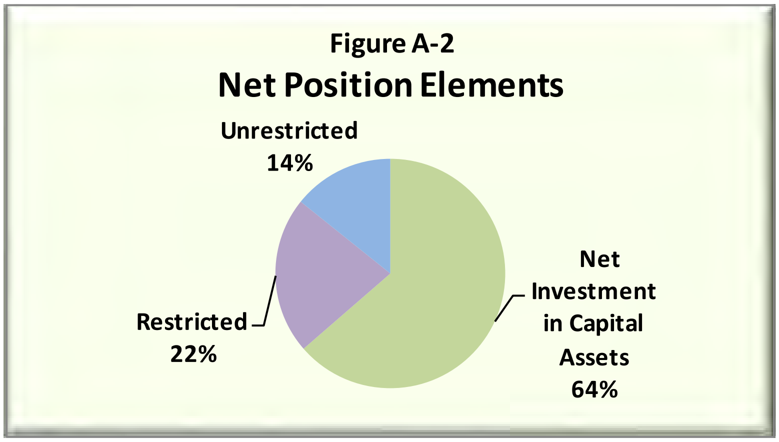
The District's net position is comprised of the following elements as illustrated in Table 1 and Figure A-2.

Table 1
San Antonio Independent School District
Net Position

	Governmental Activities 2017	Governmental Activities 2016
Current and Other Assets	$ 343,813,071	$ 331,192,096
Capital Assets, Net	1,083,096,850	1,093,100,790
Total Assets	1,426,909,921	1,424,292,886
Deferred Outflows of Resources	25,611,762	23,520,675
Long Term Liabilities	925,559,754	957,221,107
Other Liabilities	72,317,660	72,323,368
Total Liabilities	997,877,414	1,029,544,475
Deferred Inflows of Resources	14,208,754	12,309,821
Net Position:		
Net Investment in Capital Assets	280,184,696	264,358,314
Restricted	97,550,757	122,966,558
Unrestricted	62,700,062	18,634,393
Total Net Position	$ 440,435,515	$ 405,959,265

At approximately 64% of total net position, Net Investment in Capital Assets is the largest portion of the District's net position. This is the District's investment in capital assets (e.g., land, buildings, furniture, equipment and vehicles), net of accumulated depreciation and of any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to its student population and its employees. Consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Figure A-2



Restricted net position makes up 22% of total net position. It represents balances for which external constraints have been placed and includes balances for debt service, capital projects, grants, and campus activities.

Unrestricted net position is the portion of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements and represents about 14% of total net position.

Capital Assets

The District's investment in capital assets for its governmental activities, as of June 30, 2017, amounts to $1,083,096,850 (net of accumulated depreciation) as illustrated in Table 2. The District invests in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment.

This year's total capital outlay was $24,755,947 and of this amount, $22,133,498 or 89% was incurred in the capital projects fund for the on-going construction, improvement and expansion of District buildings. The District's fiscal year 2018 capital budget continues to decline as more projects near completion. Refer to Note E in section III of the Notes to the Financial Statements for more detailed information on capital assets.

Table 2
San Antonio Independent School District
Capital Assets
(net of depreciation)

	Governmental Activities 2017	Governmental Activities 2016
Land	$ 66,645,909	$ 65,516,241
Buildings and Improvements	932,055,364	805,148,266
Furniture, Equipment, & Vehicles	17,179,102	19,849,643
Construction in Progress	67,216,475	202,586,640
Total	$ 1,083,096,850	$ 1,093,100,790

Debt

At June 30, 2017, the District had $768,659,988 in bonds outstanding (the "Bonds"). By virtue of the Permanent School Fund, the Bonds are rated "AAA" by Fitch Ratings ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's). The Bonds of the District are rated "AA" by Fitch and "Aa2" by Moody's without regard to credit enhancement. The District's Commercial Paper program authorizes management to issue an aggregate principal amount not to exceed $100,000,000. The District did not issue Commercial Paper during the year and there was no commercial paper outstanding as of June 30, 2017.

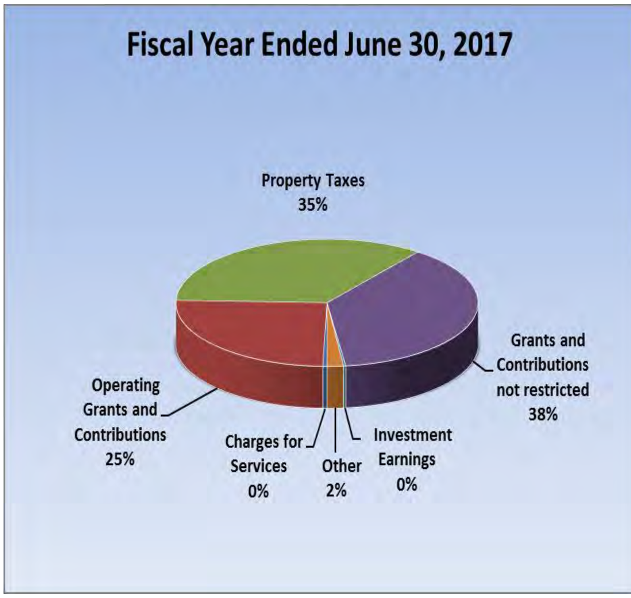
Other District long-term obligations include workers' compensation and the Accumulated Leave Incentive Plan (ALIP). More detailed information about the District's long-term liabilities is presented in Notes H through K of section III in the Notes to the Financial Statements.

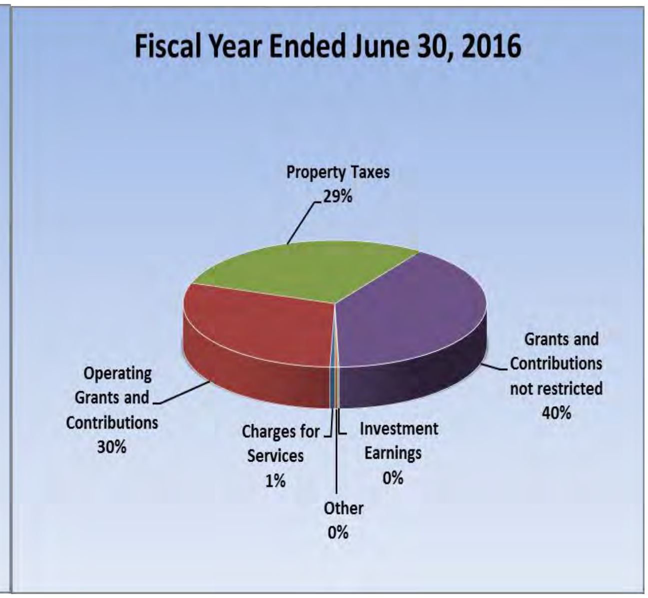
The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. GASB Statement No. 68 requires school districts to report their portion of the unfunded (liability) or overfunded (asset) pension of the Teacher Retirement System of Texas pension plan. The District has participated in the Teacher Retirement System of Texas pension plan for years. With the implementation of GASB Statement No. 68, the costs and obligations of the state (on-behalf contributions) and the District related to the Teacher Retirement System of Texas pension plan are intended to be more transparent.

Changes in Net Position

The District's revenue sources generated about the same proportions of total revenue in fiscal year 2017 as in fiscal year 2016, as illustrated in Figure A-3 except that revenues increased for other miscellaneous and local due to contributed capital (construction in progress) of $3,975,896 and due to insurance recovery (hail storm) of $2,852,855. Grants and Contributions not Restricted made up the largest portion of the revenue, followed by Property Taxes, then followed by Operating Grants and Contributions.

Figure A-3
District Sources of Revenue





As shown on the District's Statement of Activities, net position of the District's governmental activities increased by $34,476,250 for the fiscal year ended June 30, 2017 (Table 3).

Table 3
San Antonio Independent School District
Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Revenues:		
Program revenues:		
Charges for services	$ 3,041,973	$ 3,457,916
Operating grants and contributions	172,369,510	198,000,881
General revenues:		
Maintenance and operations taxes	183,872,029	146,137,445
Debt service taxes	53,842,255	48,140,060
Grants and contributions not restricted	258,842,440	266,540,791
Investment Earnings	(1,592,279)	5,169,963
Other (Miscellaneous & Local)	9,107,519	2,072,787
Extraordinary Item-resource	2,852,855	-
Total revenues	$ 682,336,302	$ 669,519,843

(Continued)

	Governmental Activities 2017	Governmental Activities 2016
Expenses:		
Instruction and media services	$ 324,413,950	$ 340,638,597
Curriculum and instructional staff development	26,623,808	19,439,521
Instructional and school leadership	51,374,079	49,509,681
Student support services	50,744,817	47,818,672
Food services	43,536,259	43,749,368
Extracurricular activities	12,691,289	11,842,204
General administration	17,268,099	15,381,107
Facilities maintenance, security, and data processing services	83,109,856	79,984,865
Community services	7,704,263	7,061,243
Debt services	28,726,464	26,153,873
SSA, JJAEP, and property tax appraisal services	1,667,168	1,767,648
Total expenses	647,860,052	643,346,779
Increase in Net Position	34,476,250	26,173,064
Beginning Net Position	405,959,265	379,786,201
Ending Net Position	$ 440,435.515	$ 405,959,265

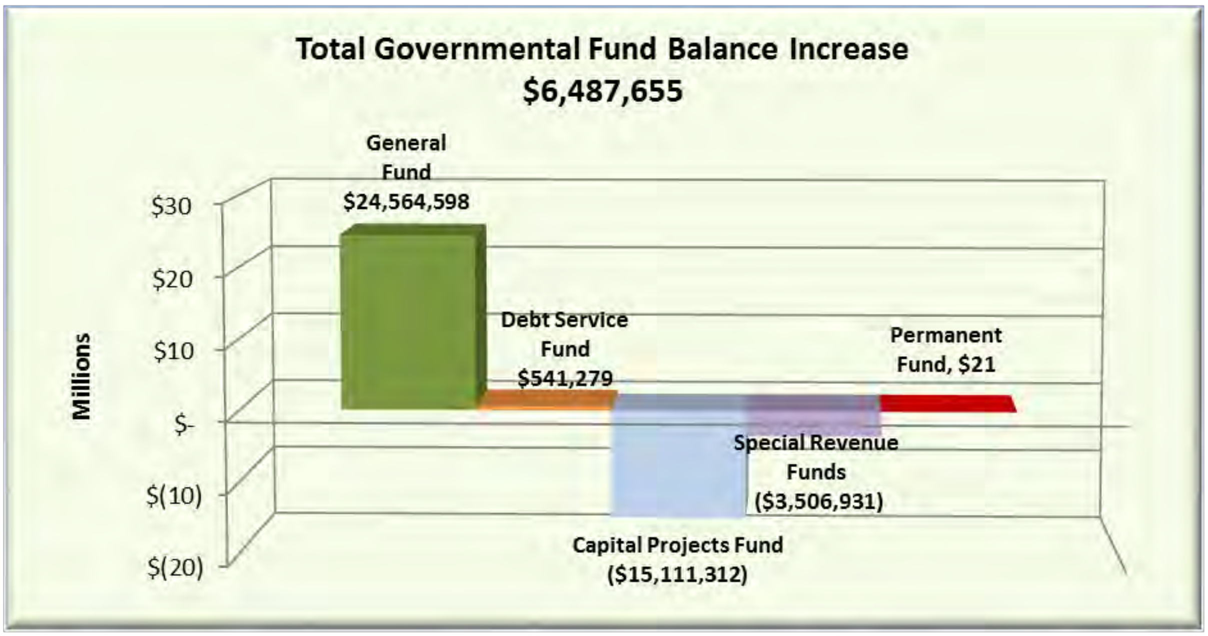
The District's total governmental activities revenues are $682,336,302, a 2% increase of $12,816,459 from the prior year. The largest increase was in *Property Taxes*. Property tax revenues increased $43,436,779, or 22%, from the prior year primarily due to the increase in the M&O tax rate of $0.13 from 2016 and an increase in property values. The decreases in Operating Grants and Contributions are due to lower state funding and lower instructional materials allotment.

The expenses for governmental activities totaled $647,860,052, a .70% increase of $4,513,273 from the prior year. The majority of the increase is in *Curriculum and Instructional Staff Development; Student Support Services and Facilities Maintenance, Security and Data Processing Services* which were offset by a decrease in *Instruction and Media Services*.

THE DISTRICT'S FUNDS

As the District completed the year ended June 30, 2017, its governmental funds (as presented in the Balance Sheet) reported a combined fund balance of $249,677,436. Included in this year's $6,487,655 total increase in fund balance is an increase of $24,564,598 in the District's General Fund and an increase of $541,279 in the Debt Service Fund offset by $18,618,222 decrease in the Capital Projects Fund and Other Funds, as illustrated in Figure A-4.

Figure A-4 District
Fund Balances



Total revenues in the General Fund increased $29,411,094 or 7% from 2016 to 2017.

- State revenue decreased $9.6M as a result of Foundation School Program funding decreases partially offset by Available School Funding increases.
- Federal revenue increased $1.3M due primarily to more SHARS activity and University of Texas Health Science Center UT Teen Health Grant.
- Property taxes, including penalties and interest, increased $43.2M primarily due to the increase in the M&O tax rate of $0.13 from 2016 and an increase in current property values.

Total expenditures in the General Fund increased $16,763,748 as compared to the previous year. This increase is due to $3.6M increases in Curriculum and Instructional Staff Development costs, $5.5M increases in School Leadership costs, and $3.8M increases in Facilities Maintenance and Operations.

The fund balance of the Debt Service Fund increased $541,279, from the amount of $86,699,033 in the prior year to $87,240,312 this year. Similar to the General Fund, increased property values resulted in additional local tax revenues of $5.7M in the Debt Service Fund offset by decreases in Existing Debt Allotment and Instructional Facilities Allotment state revenue. The Debt Service Fund expenditures decreased $11.8M from last year with the decrease in principal paid on Long Term Debt.

The fund balance of the Capital Projects Fund decreased $15,111,312 from last year. No bonds were issued this year thus decreasing the fund balance.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board of Trustees amended the District's budget several times. These budget amendments are categorized into three classifications: (1) increase to the fund balance; (2) decrease to the fund balance; and (3) no change to the fund balance.

The revenue in the final amended budget in the General Fund was increased by $40,022,470 from the adopted budget. The increase was due primarily to the successful Tax Ratification Election in November 2016, which increased the M&O tax rate from $1.04 to $1.17 for the 2016-17 and future school years. This change in tax rate, along with other less significant factors resulted in both higher local tax revenues (+$27.9 million) and higher state revenue (+10.0 million). Federal revenues increased $2.1 million due to an increase in the Medicaid / SHARS reimbursements received.

Expenditures in the General Fund are $19.8M (+4.5%) higher than appropriations in the adopted budget, but less than the board approved amended budget. The General Fund surplus, due primarily to revenues generated by the Tax Ratification Election, allowed for strategic spending in support of the Superintendent's academic initiatives, and investment in technology and facility upgrades.

The budget was substantially increased in the functional areas of Instruction, School Leadership, Administration, Extracurricular Activities, Pupil Transportation and Facilities Maintenance. These increases were offset in part by reductions in Curriculum & Instruction and Instructional Resources/Media. Most other functional areas showed minor changes from the adopted budget.

Final amended budget to actual comparisons in the General Fund reflect a $24.6M positive variance between the expected net change to the fund balance of ($0.0M) and the actual change in the fund balance of $24.6M. Final expenditures in this year were less than the final amended budgeted appropriations, with a total variance of 2.4% ($11.4 million). Spending in all functional categories are lower than final amended budget amount. The largest change in budget during the year is in the area of Instruction, with expenditures coming in $9.9M higher than the original budget. Included in the board approved increase to the budget were added supplemental teachers as well as a significant investment in student technology and other instructional initiatives. Remaining variances are relatively minor and are the result of customary unexpended balances within the District's budget.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's assessed taxable value for the 2017-2018 school year (Tax Year 2017) is projected to increase by more than 6% to $16,715,287,648 compared to the revised assessed taxable value in the 2016-2017 school year (Tax Year 2016) of $15,537,859,093. The Board did pass a resolution implementing an optional percentage-based homestead exemption with a $5,000 minimum in November of 2016, which is effective for Tax Year 2017.

- The Board approved a two cent increase to the District's Debt Service (I&S) tax rate for this coming school year. With this increase and the increase in the Maintenance & Operations rate increase from the successful Tax Ratification election, the District's total tax rate will be $1.5326 per $100 of assessed valuation.

- Taxes to fund programs and services for the upcoming school year will increase by $84.56 per year for the average residential homeowner. Of this increase, $70.53 is due to the increase in appraised residential property value, and $14.03 is due to the two cent increase in the tax rate for this year. Both commercial properties and residential properties did contribute to this year's growth of the tax base.

- The 2017-2018 budget for state revenues is based on a projected ADA of 46,822. This number is projecting an increase from the prior year of 319 students.

- Programs and services included in the General Fund budget are primarily supported by local and state sources of revenue. The General Fund revenue estimates by source for 2017-2018 are presented below:

Revenue Sources	Proposed Budget 2017-2018
Local Sources	$ 183,213,012
State Sources	253,965,919
Federal Sources	12,505,546
Total Estimated Operating Revenue	$ 449,684,477

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or require additional financial information, contact the Associate Superintendent of Financial Services and Business Operations at 141 Lavaca Street, San Antonio, Texas 78210-1095 or by calling (210) 554-8590.

SAISD

San Antonio Independent School District

SAISD

Basic Financial Section

Basic Financial Section

SAISD

Government-Wide Financial Statements

EXHIBIT A-1

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2017

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and Cash Equivalents	$ 205,516,533
1220	Property Taxes Receivable (Delinquent)	24,419,780
1230	Allowance for Uncollectible Taxes	(244,198)
1240	Due from Other Governments	90,429,467
1290	Other Receivables, net	3,193,319
1300	Inventories	2,476,815
1410	Prepayments	77,424
1493	Deposits	1,300,812
	Capital Assets:	
1510	Land	66,645,909
1520	Buildings, Net	932,055,364
1530	Furniture and Equipment, Net	17,179,102
1580	Construction in Progress	67,216,475
1990	Long Term Investments	16,643,119
1000	Total Assets	1,426,909,921
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred Charge for Refunding	5,656,080
1705	Deferred Outflow Related to TRS	19,955,682
1700	Total Deferred Outflows of Resources	25,611,762
	LIABILITIES	
2110	Accounts Payable	14,249,237
2123	Claims Payable - ST	5,980,707
2124	Compensated Absences	314,198
2140	Interest Payable	12,921,804
2150	Payroll Deductions & Withholdings	3,608,688
2160	Accrued Wages Payable	31,949,463
2180	Due to Other Governments	107,573
2300	Unearned Revenue	3,185,990
	Noncurrent Liabilities	
2501	Due Within One Year	36,745,569
2502	Due in More Than One Year	792,103,971
2540	Net Pension Liability (District's Share)	96,710,214
2000	Total Liabilities	997,877,414
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflow Related to TRS	14,208,754
2600	Total Deferred Inflows of Resources	14,208,754
	NET POSITION	
3200	Net Investment in Capital Assets	280,184,696
3810	Restricted Permanently for Endowment Principal	1,000
3820	Restricted Temporarily for Fed and State Programs	8,182,619
3850	Restricted Temporarily for Debt Service	71,881,169
3860	Restricted Temporarily for Capital Projects	16,511,110
3870	Restricted Temporarily for Campus Activities	721,276
3890	Restricted Temporarily for Other Purposes	253,583
3900	Unrestricted	62,700,062
3000	Total Net Position	$ 440,435,515

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

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

Data Control Codes		1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position 6 Primary Gov. Governmental Activities
	Primary Government:				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 317,144,166	$ 653,654	$ 55,205,305	$ (261,285,207)
12	Instructional Resources and Media Services	7,269,784	-	1,474,119	(5,795,665)
13	Curriculum and Staff Development	26,623,808	-	17,265,974	(9,357,834)
21	Instructional Leadership	14,661,225	-	6,986,558	(7,674,667)
23	School Leadership	36,712,854	-	2,152,145	(34,560,709)
31	Guidance, Counseling and Evaluation Services	22,361,135	-	6,040,667	(16,320,468)
32	Social Work Services	5,631,551	-	1,747,474	(3,884,077)
33	Health Services	9,710,785	-	12,577,794	2,867,009
34	Student (Pupil) Transportation	13,041,346	13,700	546,582	(12,481,064)
35	Food Services	43,536,259	1,517,085	41,985,056	(34,118)
36	Extracurricular Activities	12,691,289	454,458	692,194	(11,544,637)
41	General Administration	17,268,099	-	2,386,256	(14,881,843)
51	Facilities Maintenance and Operations	64,042,929	57,939	4,793,849	(59,191,141)
52	Security and Monitoring Services	6,593,169	7,046	1,614,455	(4,971,668)
53	Data Processing Services	12,473,758	-	604,411	(11,869,347)
61	Community Services	7,704,263	338,091	6,007,068	(1,359,104)
72	Debt Service - Interest on Long Term Debt	28,726,464	-	9,704,863	(19,021,601)
93	Payments related to Shared Services Arrangements	584,740	-	584,740	-
95	Payments to Juvenile Justice Alternative Ed. Prg.	8,151	-	-	(8,151)
99	Other Intergovernmental Charges	1,074,277	-	-	(1,074,277)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 647,860,052	$ 3,041,973	$ 172,369,510	(472,448,569)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	183,872,029
DT	Property Taxes, Levied for Debt Service	53,842,255
GC	Grants and Contributions not Restricted	258,842,440
IE	Investment Earnings	(1,592,279)
MI	Miscellaneous Local and Intermediate Revenue	9,107,519
E1	Extraordinary Item - resource	2,852,855
TR	Total General Revenues & Extraordinary Items	506,924,819
CN	Change in Net Position	34,476,250
NB	Net Position - Beginning	405,959,265
NE	Net Position--Ending	$ 440,435,515

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

SAISD

Governmental Funds Financial Statements

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

Data Control Codes		Major Fund General Fund	Major Fund Debt Service Fund	Major Fund Capital Projects
	ASSETS			
1110	Cash and Cash Equivalents	$ 48,267,158	$ 69,530,839	$ 29,375,519
1220	Property Taxes - Delinquent	19,174,553	5,245,227	-
1230	Allowance for Uncollectible Taxes (Credit)	(191,746)	(52,452)	-
1240	Receivables from Other Governments	66,883,662	502,696	-
1260	Due from Other Funds	10,914,223	1,355,907	-
1290	Other Receivables	3,062,617	-	-
1300	Inventories	1,239,573	-	-
1410	Prepayments	77,424	-	-
1490	Deposits	28,000	-	-
1900	Long Term Investments	-	16,643,119	-
1000	Total Assets	$ 149,455,464	$ 93,225,336	$ 29,375,519
	LIABILITIES			
2110	Accounts Payable	$ 7,927,058	$ -	$ 3,631,596
2150	Payroll Deductions and Withholdings Payable	3,608,688	-	-
2160	Accrued Wages Payable	26,209,062	-	-
2170	Due to Other Funds	1,359,366	665	-
2180	Due to Other Governments	107,571	-	-
2300	Unearned Revenues	11,709	2,720,176	-
2000	Total Liabilities	39,223,454	2,720,841	3,631,596
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	12,454,203	3,264,183	-
2600	Total Deferred Inflows of Resources	12,454,203	3,264,183	-
	FUND BALANCES			
	Nonspendable Fund Balance:			
3410	Inventories	1,239,573	-	-
3425	Endowment Principal	-	-	-
3430	Prepaid Items	105,424	-	-
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	-	-
3470	Capital Acquisition and Contractural Obligation	-	-	25,527,228
3480	Retirement of Long-Term Debt	-	87,240,312	-
3490	Other Restricted Fund Balance	250,544	-	-
	Committed Fund Balance:			
3530	Capital Expenditures for Equipment	2,231,172	-	-
3545	Other Committed Fund Balance	5,000,000	-	-
	Assigned Fund Balance:			
3590	Other Assigned Fund Balance	2,079,317	-	216,695
3600	Unassigned Fund Balance	86,871,777	-	-
3000	Total Fund Balances	97,777,807	87,240,312	25,743,923
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 149,455,464	$ 93,225,336	$ 29,375,519

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

Other Funds	Total Governmental Funds
$ 39,275,874	$ 186,449,390
-	24,419,780
-	(244,198)
18,068,713	85,455,071
-	12,270,130
130,702	3,193,319
1,237,242	2,476,815
-	77,424
-	28,000
-	16,643,119
$ 58,712,531	$ 330,768,850
$ 2,689,071	$ 14,247,725
-	3,608,688
5,740,401	31,949,463
10,913,558	12,273,589
2	107,573
454,105	3,185,990
19,797,137	65,373,028
-	15,718,386
-	15,718,386
812,200	2,051,773
1,000	1,000
-	105,424
8,182,619	8,182,619
-	25,527,228
-	87,240,312
3,039	253,583
2,319,626	4,550,798
19,346,804	24,346,804
8,278,845	10,574,857
(28,739)	86,843,038
38,915,394	249,677,436
$ 58,712,531	$ 330,768,850

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

	Total Fund Balances - Governmental Funds	$ 249,677,436
1	The District uses internal service funds to charge the costs of certain activities, such as self-insurance, 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.	13,538,339
2	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $1,499,677,729 and the accumulated depreciation was ($406,576,939). 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. At the beginning of the year, bonds payable and accreted interest balance was ($798,217,301), termination benefits payable was ($8,319,223), interest payable was ($11,468,034). The combined balance of premiums and deferred charge on refunding for these issuances, at the beginning of the year, was ($49,798,112). In addition, the beginning balance for compensated absences classified as a short-term liability was ($216,434). At the beginning of the year, the District's proportionate share of the net pension liability was ($94,722,662), and the related deferred outflows and inflows of resources were $17,532,269 and ($12,309,821), respectively. The net effect of recognizing the government-wide beginning balances is to increase net position.	135,581,472
3	Transactions related to current year capital outlays, long term investments, long-term debt and compensated absences are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, as follows: ● Acquisition of capital assets was $24,755,947 ● Disposition of capital assets was ($13,737,844) and the related accumulated depreciation was $12,268,654 ● Payments made on bond principal were $27,240,000 ● Accretion on capital appreciation bonds was ($120,026) ● Current year amortization of bond premiums was $6,862,154 and the amortization of deferred charge on refunding bonds was ($332,326) ● Change in interest payable was a ($1,453,770) increase; compensated absences was a ($97,764) increase; and termination benefits was a $314,230 decrease The net effect is to increase net position.	55,699,255
4	Included in the items related to debt is the recognition of the (increase) in the District's proportionate share of the net pension liability required by GASB 68 in the amount of ($1,987,552), an increase in deferred resources inflow related to TRS in the amount of ($1,898,933), and an increase in deferred resource outflow related to TRS in the amount of $2,423,413. The net effect is to (decrease) net position.	(1,463,072)
5	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.	(33,290,697)

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

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

6	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting, as follows: Recognize unavailable revenue from current year levy in the amount of $5,194,816 and from prior year levies in the amount of $10,523,570; recognize SHARS revenue in the amount of $4,974,396. The net effect is to increase net position.	20,692,782
19	**Net Position of Governmental Activities**	$ 440,435,515

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

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

Data Control Codes		Major Fund General Fund	Major Fund Debt Service Fund	Major Fund Capital Projects
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 187,867,888	$ 51,771,117	$ 148,651
5800	State Program Revenues	275,674,725	7,051,162	-
5900	Federal Program Revenues	13,534,827	2,653,701	-
5020	Total Revenues	477,077,440	61,475,980	148,651
	EXPENDITURES:			
	Current:			
0011	Instruction	258,285,364	-	97,753
0012	Instructional Resources and Media Services	6,329,734	-	-
0013	Curriculum and Instructional Staff Development	9,305,904	-	-
0021	Instructional Leadership	7,609,255	-	-
0023	School Leadership	34,045,622	-	-
0031	Guidance, Counseling and Evaluation Services	15,979,612	-	-
0032	Social Work Services	3,812,609	-	-
0033	Health Services	8,510,298	-	-
0034	Student (Pupil) Transportation	10,746,156	-	-
0035	Food Services	144,738	-	-
0036	Extracurricular Activities	11,499,189	-	-
0041	General Administration	15,846,680	-	-
0051	Facilities Maintenance and Operations	52,094,107	-	617,314
0052	Security and Monitoring Services	5,936,753	-	-
0053	Data Processing Services	11,044,647	-	-
0061	Community Services	1,676,047	-	-
	Debt Service:			
0071	Principal on Long Term Debt	-	27,240,000	-
0072	Interest on Long Term Debt	-	33,682,496	-
0073	Bond Issuance Cost and Fees	-	12,205	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	2,156,661	-	22,397,751
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	8,151	-	-
0099	Other Intergovernmental Charges	1,074,277	-	-
6030	Total Expenditures	456,105,804	60,934,701	23,112,818
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	20,971,636	541,279	(22,964,167)
	OTHER FINANCING SOURCES (USES):			
7912	Sale of Real and Personal Property	3,994,896	-	-
7915	Transfers In	-	-	5,000,000
8911	Transfers Out (Use)	(401,934)	-	-
7080	Total Other Financing Sources (Uses)	3,592,962	-	5,000,000
	EXTRAORDINARY ITEMS:			
7919	Extraordinary Item - Resource	-	-	2,852,855
1200	Net Change in Fund Balances	24,564,598	541,279	(15,111,312)
0100	Fund Balance - July 1 (Beginning)	73,213,209	86,699,033	40,855,235
3000	Fund Balance - June 30 (Ending)	$ 97,777,807	$ 87,240,312	$ 25,743,923

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

Other Funds	Total Governmental Funds
$ 5,428,309	$ 245,215,965
4,341,187	287,067,074
120,179,844	136,368,372
129,949,340	668,651,411
42,201,920	300,585,037
539,274	6,869,008
16,827,991	26,133,895
6,581,401	14,190,656
462,861	34,508,483
5,403,055	21,382,667
1,597,457	5,410,066
656,920	9,167,218
1,881	10,748,037
43,717,312	43,862,050
354,401	11,853,590
428,784	16,275,464
2,879,856	55,591,277
259,055	6,195,808
315,568	11,360,215
5,969,096	7,645,143
-	27,240,000
-	33,682,496
-	12,205
76,612	24,631,024
584,740	584,740
-	8,151
-	1,074,277
128,858,184	669,011,507
1,091,156	(360,096)
-	3,994,896
401,934	5,401,934
(5,000,000)	(5,401,934)
(4,598,066)	3,994,896
-	2,852,855
(3,506,910)	6,487,655
42,422,304	243,189,781
$ 38,915,394	$ 249,677,436

SAN ANTONIO 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	$	6,487,655
The District uses internal service funds to account for the revenues and expenses to the workers compensation, medical insurance and dental insurance funds. The operating income of internal service funds is reported with governmental activities. The net effect of this consolidation is to increase net position.		6,024,717
Transactions related to current year capital outlays, long term investments, long-term debt and compensated absences are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting, as follows: ● Acquisition of capital assets was $24,755,947 ● Disposition of capital assets was ($13,737,844) and the related accumulated depreciation was $12,268,654 ● Payments made on bond principal were $27,240,000 ● Accretion on capital appreciation bonds was ($120,026) ● Current year amortization of bond premiums was $6,862,154 and the amortization of deferred charge on refunding bonds was ($332,326) ● Change in interest payable was a ($1,453,770) increase; compensated absences was a ($97,764) increase; and termination benefits was a $314,230 decrease The net effect is to increase net position.		55,699,255
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.		(33,290,697)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting, as follows: ● Remove tax collections from prior year levies in the amount of ($2,514,779) ● Recognize unavailable revenue from current year levy in the amount of $5,194,816 ● Recognize less tax revenue in the amount of ($1,564,658) for the diffence between what was estimated in the prior year and collected in the current year ● Recognize SHARS revenue in the amount of $4,974,396 ● Remove SHARS revenue from prior year in the amount of ($5,071,383) The net effect is to increase net position.		1,018,392
Various adjustments were necessary for GASB 68 purposes as follows: ● Contributions made after the measurement date of August 31, 2016 in the amount of $7,302,509 were deexpended, and recorded as deferred resource outflows ● Contributions made before the measurement date of August 31, 2016 in the amount of $1,309,862 were also deexpended ● The net amount of deferred resource outflows and inflows amortized in the current measurement period was $43,491 ● The contribution adjustments were $16,173 ● The District's proportionate share of pension expense and adjustments used by TRS was ($10,135,107) The net effect is a (decrease) to the change in net position.		(1,463,072)

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

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

	Governmental Activities - Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 19,067,143
Due from Other Funds	3,459
Other Current Assets	1,272,812
Total Assets	20,343,414
LIABILITIES	
Current Liabilities:	
Accounts Payable	1,512
Short Term Claims Payable	5,980,707
Total Current Liabilities	5,982,219
Noncurrent Liabilities:	
Claims Payable - Due in More than One Year	822,856
Total Noncurrent Liabilities	822,856
Total Liabilities	6,805,075
NET POSITION	
Unrestricted Net Position	13,538,339
Total Net Position	$ 13,538,339

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

EXHIBIT D-2

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

	Governmental Activities - Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	$ 39,991,114
Total Operating Revenues	39,991,114
OPERATING EXPENSES:	
Payroll Costs	383,768
Professional and Contracted Services	3,630,290
Supplies and Materials	5,198
Other Operating Costs	29,947,141
Total Operating Expenses	33,966,397
Operating Income	6,024,717
Total Net Position - July 1 (Beginning)	7,513,622
Total Net Position - June 30 (Ending)	$ 13,538,339

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

SAN ANTONIO 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

Change in Net Position of Governmental Activities	$ 34,476,250

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

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

	Governmental Activities - Total Internal Service Funds
Cash Flows from Operating Activities:	
Cash Received from User Charges	$ 39,991,114
Cash Payments to Employees for Services	(383,768)
Cash Payments for Insurance Claims	(30,782,238)
Net Cash Provided by Operating Activities	8,825,108
Net Increase in Cash and Cash Equivalents	8,825,108
Cash and Cash Equivalents at Beginning of Year	10,242,035
Cash and Cash Equivalents at End of Year	$ 19,067,143
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income:	$ 6,024,717
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase in Accounts Payable	948
Decrease in Accrued Wages Payable	(1,612)
Increase in Claims Payable	3,507,526
Increase in Deposits	(706,471)
Net Cash Provided by Operating Activities	$ 8,825,108

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

SAN ANTONIO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2017

	Agency Fund
ASSETS	
Cash and Cash Equivalents	$ 2,777,344
Total Assets	$ 2,777,344
LIABILITIES	
Due to Student Groups	$ 2,777,344
Total Liabilities	$ 2,777,344

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

SAISD

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The San Antonio Independent School District (the "District") is a public educational agency with a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources; and, it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide"), and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, approve/disapprove the appointment of administrators and managers, and significantly influence operations. The Board also has primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity", and it is not included as part of any other governmental reporting entity.

Blended Component Unit. During fiscal year 1996, the District approved the formation of the San Antonio Independent School District Public Facilities Corporation (the Corporation). The Corporation is organized exclusively for the purposes of benefiting and accomplishing public purposes of the District and acting on behalf of the District. The Corporation may be used to assist in the financing, accounting, or refinancing of obligations of the District, and in providing "public facilities" to purchase obligations of the District, and to incur obligations issued or incurred in accordance with existing law. Blended component units, although legally separate entities, are, in substance, part of the government's operations, and therefore, at June 30, 2017, the District has reflected this Corporation as a blended component unit. The Corporation is included in the Debt Service Fund total and, therefore, does not issue separate financial statements.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. These statements report information on all of the District's nonfiduciary activities with the interfund activities removed. Government activities include programs supported primarily by property taxes, state foundation funds, grants and other intergovernmental revenues.

The net position of the District is segregated into three different categories, to include: net investment in capital assets, restricted net position, and unrestricted net position.

The Statement of Activities reports program revenues and general revenues separately. The program revenues section of the statement demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "Charges for Services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function of the District. Examples include tuition paid for various activities, school lunch charges, etc. The "Operating Grants and Contributions" column includes amounts paid by organizations outside the District to help meet the operational requirements of a given function. An example includes grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue and used to support all of the District's functions (i.e., property taxes).

Interfund activities reported include loans and transfers between governmental funds. The loans appear as due to/ due from other funds on the Governmental Funds Balance Sheet. The transfers appear as other financing sources and uses on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. All interfund transactions between governmental funds are eliminated in the government-wide statements.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund financial statements; the Agency fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. With the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) associated with the operations of these funds are included in the Statement of Net Position. With the accrual basis of accounting, revenue is recognized in the accounting period in which it is earned and becomes measurable and expenses in the period in which they are incurred and become measurable. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The total net position for these funds are segregated into net investment in capital assets, restricted net position, and unrestricted net position.

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

The modified accrual basis of accounting recognizes revenues as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, if measurable, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to claims and judgments are recorded only when payment is due. The District accrues accumulated unpaid vacation leave when earned by the employee. A liability for this amount is reported in the government-wide financial statements.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the state are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The District reports the following major governmental funds:

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. It is a budgeted fund, and any fund balances are considered resources available for current operations. General Fund primary revenue sources include property taxes and state funding.

Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a Debt Service Fund. The Debt Service Fund is a budgeted fund whose primary revenue source is local property taxes levied specifically for debt service. The fund balance of this fund represents amounts that will be used for retirement of bonds and payment of interest in the future.

Capital Projects Fund – This fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction projects. This fund is generally budgeted on a project basis.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or committed for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal financial assistance, including the Child Nutrition Program, and some state financial assistance is accounted for in a Special Revenue Fund. Sometimes unused grant balances must be returned to grantors at the close of specified project periods.

Permanent Fund – The District uses a Permanent Fund to account for resources received with explicit donor requirements that the original donation must remain intact and only earnings from the donation may be used for the purpose dictated by the donor.

Proprietary Funds:

Internal Service Funds – The District uses an Internal Service Fund to account for revenues and expenses related to the workers compensation, medical insurance, and dental insurance.

Fiduciary Funds:

Agency Funds – The District accounts for resources held for others in a custodial capacity in Agency Funds. The District accounts for the Student Activity Fund as an Agency Fund.

D. OTHER ACCOUNTING POLICIES

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. Investments are reported at fair value.

The funds of the District must be deposited and invested under the terms of a depository contract, contents of which are set out in the Depository Contract Law. The depository bank must pledge eligible securities as collateral for the District's deposits plus accrued interest less FDIC insurance of the District. In accordance with the Public Funds Collateral Act and the Texas Education Code, the collateral margin coverage is at 102% (110% if pledging eligible declining principal securities).

For the purposes of the Statement of Cash Flows for the Internal Service Funds, cash and cash equivalents are considered to be demand deposits.

2. Receivables and Payables

Interfund activities that represent lending/borrowing arrangements which are outstanding at the end of the fiscal year are referred to as "due to/ due from other funds".

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Bexar Appraisal District (BAD). The BAD is an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the BAD Review Board through various appeals and, if necessary, legal action.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the period ended June 30, 2017, the General and Debt Service fund rates were $1.17 and $.3426, respectively, per $100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General 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. The property tax receivable allowance is equal to 1 percent of outstanding property taxes at June 30, 2017.

3. Inventories

The District reports inventories of supplies on the balance sheet at weighted average cost and they include consumable, custodial, maintenance, transportation, instructional and office supplies, and athletic items. Inventories of governmental funds are recorded as expenditures when they are consumed rather than when purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received in the governmental funds. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

4. Prepayments

Certain payments to vendors/employees reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements. The amount reported as prepayment at June 30, 2017 will be relieved using the consumption method.

5. Capital Assets

Capital assets, which include land, buildings and improvements, furniture, equipment, vehicles, and construction in progress are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of $5,000 or more and an estimated useful life in excess of one year for depreciation purposes. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed or at acquisition value when received through a service concession arrangement. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

Asset Class	Estimated Useful Life
Buildings and Improvements	40
Portable Buildings	20
Furniture and Equipment	10
All Vehicles	10
Audio Visual Equipment	10
Printing, Duplicating & Copying Equipment	5
Data Processing Equipment	3

6. Compensated Absences

Vacation Leave – Full-time employees of the District accumulate vacation leave benefits in varying amounts. Employees who accumulate vacation leave benefits are required to take their vacation benefits by October 31st of the subsequent year. The vacation leave balance is reflected as a current liability in the Statement of Net Position since employees must use the accumulated leave in the following fiscal year.

State Leave – Under current state law, District employees earn up to five days of leave per year at the rate of one-half workday for every 18 days of employment, with no limit on accumulation. State leave balances roll over year after year and District employees may transfer unused leave balances to another Texas school district.

Local Leave – All District employees earn paid local leave of 5-7 days per school year, depending on the number of days worked. Local leave accumulates without limit and balances roll over from year to year.

Accumulated state and local leave balances are not paid upon termination from the District, except those paid under the Accumulated Leave Incentive Plan (ALIP). The plan is available to employees meeting certain eligibility requirements.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. It is the District's policy to record bond premiums and discounts as deferred costs and amortize them over the life of the bonds using the effective interest method if material or straight line when not material. Loss on refunded debt is amortized over the term of the related bond using the straight line method. The balance of the loss on refunded debt is reported as a deferred outflow of resources with the adoption of GASB 65. Bonds payable are reported net of the applicable bond premiums and discounts.

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

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27* requires state and local government agencies to display the actuarially determined Net Pension Liability in its financial statements. The disclosures for the pension plan required in accordance with GASB No. 68 are included at Section III. L.

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures* requires the disclosure of information about the nature and magnitude of tax abatements. The statement is effective for reporting periods ending on or after December 15, 2016.

8. Fund Balance

In the fund financial statements, the District uses the following criteria when classifying fund balance amounts:

Nonspendable – amounts not in spendable form or that are legally or contractually earmarked for a specific use. Examples include inventories and endowment principal.

Restricted – amounts that have been legally separated for a specific purpose by law or external funding source. Examples include grants, capital acquisitions, and long-term debt.

Committed – amounts that can only be set aside for a specific purpose by the District's highest level of decision-making authority, the Board, through formal action by adopting a resolution. This Board action to commit funds must occur prior to fiscal year end and can only be modified or removed through Board resolution. Examples include capital expenditures, self insurance, and campus activity funds.

Assigned – amounts that do not require Board approval but are intended to be used for a specific purpose. As established by the District's fund balance policy, the Superintendent or Associate Superintendent, Finance Services and Business Operations is authorized to assign amounts for a specific purpose. 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 over-spending for specific purposes for which amounts had been restricted, committed, or assigned, as applicable. The District's policy is to maintain a minimum threshold of 10% of the prior year's expenditures in unassigned fund balance for the General Fund. The District's unassigned fund balance amount at June 30, 2017 is $86,871,777, which exceeds the required minimum amount of $43,934,206.

As of June 30, 2017 the District is reporting a deficit fund balance of $28,739 in Fund 499 Other Local Special Revenue Funds, accordingly the balance is reported as unassigned fund balance.

The District received $2,852,855 in September 2016 from insurance related to the damage from the hail storm that hit the San Antonio area on April 12, 2016. The insurance recovery proceeds reported as an extraordinary item will be used to repair or replace the insured property with roof damage requiring the most repairs or replacements.

9. 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 incurred meets the criteria for more than one fund balance category, the District relieves fund balance in the following order: restricted, committed, assigned, and then unassigned.

10. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. School districts are required to display these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide data base for policy development and funding plans.

11. Restricted/Unrestricted Resources

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted resources available to finance the program. It is the District's policy to first apply cost-reimbursement grant (restricted) resources to such programs and then general revenues.

12. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

13. Indirect Expenses

School districts are required to report all expenses by function. All general administration and other intergovernmental expenses reported in functions 41 and 99, respectively, and some data processing service expenses reported in function 53 represent indirect expenses of other functions.

14. Arbitrage Payable

The Tax Reform Act of 1986 enacted section 148(f) on the Internal Revenue Code, relating to arbitrage rebate requirements, which generally provides that in order for interest on any issue of obligation to be excluded from gross income (i.e. tax exempt), the issuer must rebate to the United States the excess of the amount earned on investments acquired from bond proceeds over the amount which would have been earned if such investments had been invested at a yield equal to the yield on the issue. This amount is determined based on current investment yields and is subject to change prior to the due date of the rebate. The due date of the rebate is five years from the date of issue. The District records the liability, which is currently payable, in the Capital Projects Fund. There was no arbitrage payable at June 30, 2017.

15. Deferred Outflows and Inflows of Resources

Deferred Outflows of Resources are reported between the assets and liabilities sections on the government-wide Statement of Net Position that represent a future consumption of net position. The District reports the deferred charge for refunding in this category, which is the difference between the carrying value of refunded debt and its reacquisition price. The unamortized balance as of June 30, 2017 is $5,656,080. The District also reports $19,955,682 pension costs to be amortized in future periods. The total deferred outflows in the government-wide financial statements is $25,611,762 at June 30, 2017 to be recognized in future periods.

Deferred Inflows of Resources are reported between the liabilities and fund balances sections on the governmental funds Balance Sheet. Deferred Inflows of Resources represent an acquisition of net position that applies to a future period and will not be recognized until then. The District reports unavailable revenue for property taxes in this category which is $15,718,386 at June 30, 2017. This relates to uncollected property taxes less the amount for doubtful accounts. The deferred inflows of resources to report in the government-wide financial statements is $14,208,754 at June 30, 2017 comprised of contributions and the financial effect of the pension activity.

16. Investments

At June 30, 2017, the District's current investments are comprised of local government investment pools, money market funds, and a repurchase agreement. The investment pools and money market funds are reported as cash and cash equivalents. The repurchase agreement is reported as current investments.

The District's investments in public funds investment pools include those with Texas Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve Fund (TexSTAR), and Lone Star Investment Pool (Lone Star). The pools were created pursuant to the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. The pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The pools use amortized cost rather than fair market value to report net position to compute share prices. Accordingly, the fair value of the District's position in these pools is the same as the value of the pool shares. Participation in the pools is voluntary.

The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust company, which is authorized to operate TexPool. Administrative and investment services are provided by Federated Investors, Inc., acting on behalf of the Texas Treasury Safekeeping Trust Company. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool, who are qualified to advise TexPool. Financial information for TexPool can be accessed on the internet (http://www.texpool.com).

TexSTAR is governed by a board of directors. J.P. Morgan Investment Management, Inc. acts as the investment manager and FirstSouthwest provides participant and marketing services. Financial information for TexSTAR can be accessed on the internet (http://www.texstar.org).

Lone Star is administered and distributed by the Texas Association of School Boards' wholly owned subsidiary, First Public. First Public is a registered broker-dealer with the SEC, the Financial Industry Regulatory Authority, and the Municipal Securities Rulemaking Board. Lone Star is governed by an eleven-member Board of Trustees (Board) made up of active participants in the pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board is also responsible for monitoring the performance of the pool. Financial information for the pool can be obtained by writing to First Public at 12007 Research Blvd., Austin, Texas 78759 or by calling 1-800-558-8875.

The District is invested in the Fidelity Money Market Portfolio Fund (FNSXX) managed by Federated Investors (the "Fund"). The Fund is a money market mutual fund, regulated primarily under SEC's Rule 2a7 of the Investment Company Act of 1940 (the "ACT"). The Fund attempts 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. The Fund is assigned a cusip number and a NASDAQ symbol and can be purchased and redeemed on the New York Stock Exchange. The funds do not charge a front-end sales charge.

The District reports certain investments at amortized cost consistent with GASB 31 *Accounting for Certain Investments and External Investment Pools.*

In February 2015, GASB issued the new pronouncement for Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The objectives of this Statement are to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures around fair value measurements. The provisions of this Statement are effective for financial statements in periods after June 15, 2015.

17. Pensions

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

The Board adopts an "appropriated budget" on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and Child Nutrition Program Fund (which is reported with the Special Revenue Funds). The District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds. The General Fund Budget report is presented in Exhibit G-1 and the Child Nutrition Program Fund Budget and Debt Service Fund Budget reports are presented in Exhibits J-4 and J-5, respectively.

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

∗ Prior to June 20th, the District prepared a budget based on the budgeting concepts for the subsequent fiscal year. The operating budget included proposed expenditures and the means of financing them.

∗ After several budget workshops with the Board, a meeting was called for the purpose of adopting the proposed budget. At least ten days, but not more than 30 days, of public notice of the meeting is required.

∗ A summary of the proposed budget was posted on the District's website. The budget summary included a comparison to the previous year's actual spending and information relating to per-student and aggregate spending on instruction, instructional support, central administration, district operations, debt service, and any other category designated by the commissioner.

∗ No later than June 30th, the Board adopted the budget for the General Fund, Debt Service Fund and Child Nutrition Program Fund.

* The adopted budget was posted on the District's website, where it will be prominently displayed until the third anniversary of the date the budget was adopted.

* After the budget for the above listed funds was approved, any amendment that caused an increase or decrease in a fund or functional spending category, or total revenue or other resources object category, required Board approval. These amendments were presented to the Board at its regular monthly meeting and were reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

* Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principals, department director or area administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriations.

* Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. Encumbrances for specific purposes for which amounts have not been previously restricted or committed were included within assigned fund balance. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. Outstanding encumbrances at June 30, 2017 that were provided for in the 2017-2018 budget were reported as follows:
    - The General Fund had $4,124,941 in outstanding encumbrances, all of which was reported as assigned fund balance.
    - The Capital Projects Fund had $1,761,579 in outstanding encumbrances, all of which was reported as restricted fund balance. These encumbrances represent the unexpended portion of maintenance contracts.
    - The Other Funds had $24,016 in outstanding encumbrances, all of which was reported as restricted fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Deposits and investments are comprised of the following:

	Governmental Funds						
	General Fund	Debt Service	Capital Projects	Other Funds	Total	Proprietary Funds	Grand Total
Cash and Cash Equivalents:							
Demand Accounts	$ (63,205,696)	$ -	$ 10,136,041	$ 39,271,130	$ (13,798,525)	$ 10,970,960	$ (2,827,565)
Cash on Hand	-	-	-	705	705	-	705
Investment Pools	91,404,528	59,491,773	563,654	4,039	151,463,994	8,096,183	159,560,177
Money Market Funds	20,068,326	10,039,066	18,675,824	-	48,783,216	-	48,783,216
Total	$ 48,267,158	$ 69,530,839	$ 29,375,519	$ 39,275,874	$ 186,449,390	$ 19,067,143	$ 205,516,533

	Agency Funds Student Activity Funds
Cash and Cash Equivalents:	
Demand Accounts	$ 5,826
Cash on Hand	125
TexPool	2,771,393
Total	$ 2,777,344

At June 30, 2017, the carrying amount of the District's deposits (cash and interest-bearing savings accounts), including agency funds, was $(2,821,739) and the bank balance was $3,383,299. To control custody risk, in accordance with the District's policy, the District's cash deposits at June 30, 2017, and during the year ended June 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Following is additional information regarding coverage of combined balances on the date of the highest deposit:

1. Name of Bank: Bank of America

2. The highest combined balances of cash and interest-bearing savings accounts amounted to $8,864,161 and occurred during the month of July 2016.

3. Total amount of pledged collateral and FDIC coverage at the time of the highest combined balance was $15,442,834.

The Public Funds Investment Act – Government Code Chapter 2256 contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District believes it is in substantial compliance with the requirements of the Act and with local policies.

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

Investment	Fair Value	Weighted Average Maturity (Days)	Ratings
Lone Star Investment Pool	$ 69,388,126	1	S&P AAAm
TexPool	62,190,840	1	S&P AAAm
TexStar	30,752,601	1	S&P AAAm
Money Market Mutual Funds			
Money Market Portfolio Fund	48,783,216	1	Not Rated
Total	$ 211,114,783		

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits maturities of investments to two years from the date of purchase.

Credit Risk – In accordance with the District's investment policy, investments in investment pools must be rated at least AAA to AAA-m or equivalent, and investments in obligations of the U.S. government or its agencies must be rated at least A or equivalent.

GASB 72 establishes general principles for measuring fair value and standards of accounting and financial reporting for assets and liabilities measured at fair value. As defined in GASB 72 paragraph 5, *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The objective of a fair value is to estimate the exit price of assets and liabilities.

GASB 72 paragraph 18 states that a government entity should use valuation techniques consistent with one or more of the following approaches to measuring fair value:

≠ Market approach – uses prices and other relevant data derived from market transactions for identical or similar assets, liabilities, or a group of assets and liabilities.

≠ Cost approach – reflects the amount that would be required currently to replace the present service capacity of an asset.

≠ Income approach – converts future amounts to a single discounted amount. The fair value measurement would also reflect any current market expectations for future amounts.

As outlined in GASB 72, *inputs* refer broadly to the assumptions, or parameters, that any market participant might use when pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. When applying valuation technique(s) one of the three inputs below can be used to best represent fair value:

≠ Level 1 – Most reliable such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

≠ Level 2 – Reliable such as quoted prices for similar assets for liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other observables.

≠ Level 3 – Least Reliable such as unobservable inputs.

The table below illustrates the fair value of the District's investments at June 30, 2017:

Investments Measured at Fair Value
($ in millions)

		Fair Value Measurements Using		
	6/30/2017	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Investments by fair value level				
Money Market Funds	$ 49	$ 49	$ -	$ -
Total Cash Equivalents & Investments Reported @ FMV	$ 49	$ 49	$ -	$ -

In addition, the District has funds held in 2a7 like external investment pools valued at amortized cost, in the amount of $162,331,570 which includes $2,771,393 reported in Agency Funds.

B. RECEIVABLES

Receivables as of June 30, 2017, for the District's individual major funds and other funds, including the applicable allowances for uncollectible accounts, are as follows:

	Major Funds			
	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property Taxes - Delinquent	$ 19,174,553	$ 5,245,227	$ -	$ 24,419,780
Receivables from Other Governments	66,883,662	502,696	18,068,713	85,455,071
Other Receivables	3,062,617	-	130,702	3,193,319
Gross Receivables	$ 89,120,832	$ 5,747,923	$ 18,199,415	$ 113,068,170
Less : Allowance for Uncollectible Taxes	(191,746)	(52,452)	-	(244,198)
Total Receivables (Net)	$ 88,929,086	$ 5,695,471	$ 18,199,415	$ 112,823,972

These amounts are expected to be collected within one year. Delinquent property taxes may be collected over several years.

The amounts reflected as Receivables from Other Governments above are comprised of the following:

	Major Fund			
	General Fund	Debt Service Fund	Other Governmental Funds	Total
Due from State Agencies	$ 66,429,190	$ 502,696	$ 12,777,540	$ 79,709,426
Due from Federal Agencies	80,002	-	1,526,728	1,606,730
Due from Other Government Agencies	374,470	-	3,764,445	4,138,915
Total Due from Other Governments	$ 66,883,662	$ 502,696	$ 18,068,713	$ 85,455,071

The amount reflected as Other Receivables above is comprised of the following:

	Major Fund		
	General Fund	Other Governmental Funds	Total
Restitution	$ 13,450	$ -	$ 13,450
Miscellaneous	3,049,167	130,702	3,179,869
Total Other Receivables	$ 3,062,617	$ 130,702	$ 3,193,319

C. UNEARNED REVENUE AND DEFERRED INFLOWS

Unearned Revenues

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 show unearned revenue in connection with resources that have been received, but not yet earned.

At June 30, 2017, unearned revenue reported in the governmental funds was as follows:

	Major Funds			
	General Fund	Debt Service Fund	Other Governmental Funds	Total
Federal Food Commodities	$ -	$ -	$ 425,041	$ 425,041
Advance Funding	11,709	2,720,176	29,064	2,760,949
Total	$ 11,709	$ 2,720,176	$ 454,105	$ 3,185,990

The Federal Food Commodities amount of $425,041 along with the Advance Funding amount of $2,760,949 total $3,185,990 and are reported as unearned revenue in the government-wide Statement of Net Position. This treatment of Federal Food Commodities has the effect of reducing Non Spendable Fund balance of inventories for other governmental funds by $425,041.

Deferred Inflows

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

	Major Funds		
	General Fund	Debt Service Fund	Total
Unavailable Revenue – Property Taxes	$ 12,454,203	$ 3,264,183	$ 15,718,386

The unavailable revenue of $15,718,386 on the balance sheet for Major Funds relates to uncollected property taxes, less the allowance for doubtful accounts. These are shown as deferred inflows of resources on Exhibit C-1 per GASB Statement No. 65.

D. DUE TO / DUE FROM OTHER FUNDS AND TRANSFERS IN / OUT

The composition of amounts due to/from other funds as of June 30, 2017 is as follows:

	Receivable	Payable
General Fund:		
Other Funds	$ 10,913,558	$ -
Debt Service Fund	665	1,355,907
Internal Service Fund	-	3,459
Total General Fund	10,914,223	1,359,366
Debt Service Fund:		
General Fund	1,355,907	665
Other Funds:		
General Fund	-	10,913,558
Internal Service Funds:		
General Fund	3,459	-
Total Interfund Receivables and Payables	$ 12,273,589	$ 12,273,589

Receivables in the General Fund represent amounts provided to Special Revenue Funds pending reimbursement from grantors and amounts due from the Debt Service Fund for property tax collections allocated to the General Fund. In addition, the amount due the Debt Service fund are from property tax collections from June 28th-30th reimbursed by the General Fund in July. The amount due the Internal Service Fund is for June medical payroll deductions. These interfund balances are expected to be repaid within one year from the date of the financial statements.

Transfers during the year ended June 30, 2017 were as follows:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund:		
General Fund	$ -	$ -
Other Governmental Funds	-	401,934
Total General Fund	-	401,934
Capital Projects Fund:		
Other Governmental Funds	5,000,000	-
Total Capital Projects Funds	5,000,000	-
Other Governmental Funds:		
General Fund	401,934	
Capital Projects Fund		5,000,000
Total Transfers – Governmental Funds	$ 5,401,934	$ 5,401,934

The transfer from the General Fund to Other Governmental Funds was for subsidizing the Child Nutrition Program for meals served to students that meet the “reduced” payment status. The transfer from the Other Governmental Funds to the Capital Projects Fund of $5 million was for maintenance projects and transportation facility additions that will continue into 2017-18.

E. CAPITAL ASSETS

Capital asset activity for the governmental activities for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Increases	Decreases	Transfers	Balance June 30, 2017
Capital Assets, Not Being Depreciated:					
Land	$ 65,516,241	$ 1,491,429	$ (361,761)	$ -	$ 66,645,909
Construction in progress	202,586,640	22,133,498	-	(157,503,663)	67,216,475
Total Capital Assets, Not Being Depreciated	268,102,881	23,624,927	(361,761)	(157,503,663)	133,862,384
Capital Assets, Being Depreciated:					
Buildings & Improvements	1,185,918,497	-	(11,925,028)	157,503,663	1,331,497,132
Furniture, Equipment, & Vehicles	45,656,351	1,131,020	(1,451,055)	-	45,336,316
Total Capital Assets, Being Depreciated	1,231,574,848	1,131,020	(13,376,083)	157,503,663	1,376,833,448
Less Accumulated Depreciation for:					
Buildings & Improvements	(380,770,231)	(29,542,852)	10,871,315	-	(399,441,768)
Furniture, Equipment, & Vehicles	(25,806,708)	(3,747,845)	1,397,339	-	(28,157,214)
Total Accumulated Depreciation	(406,576,939)	(33,290,697)	12,268,654	-	(427,598,982)
Total Capital Assets, Being Depreciated, Net	824,997,909	(32,159,677)	(1,107,429)	157,503,663	949,234,466
Total Governmental Activities Capital Assets, Net	$ 1,093,100,790	$ (8,534,750)	$ (1,469,190)	$ -	$ 1,083,096,850

The District had nonmonetary transactions for the construction of CAST High School where donations from several corporations were made to build this school. These transactions were recorded at fair market value in the amount of $3,975,896 through June 30, 2017. These transactions are part of the Capital Assets reflected in the government-wide Statement of Net Position. The donated revenue is reflected in the Miscellaneous Local and Intermediate Revenue in the government-wide Statement of Activities.

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

Instruction	$17,016,887
Instructional Resources and Media Services	414,735
Curriculum and Instructional Staff Development	607,073
Instructional Leadership	503,844
School Leadership	2,220,973
Guidance, Counseling, and Evaluation Services	1,044,388
Social Work Services	248,716
Health Services	556,268
Student (Pupil) Transportation	2,308,657
Food Services	244,713
Extracurricular Activities	889,687
General Administration	1,060,314
Facilities Maintenance and Operations	4,043,931
Security and Monitoring Services	492,832
Data Processing Services	1,527,704
Community Services	109,975
Total Governmental Activities	$33,290,697

Construction Commitments

An encumbrance system of accounting is maintained to account for commitments from approved purchase orders, work orders, and contracts. Capital Projects Fund encumbrances represent significant construction commitments. The end-of-year contract commitments for the District were $9,016,118.

F. LONG TERM INVESTMENT

The District’s ongoing debt management program includes the Sinking Fund Repurchase Agreement dated October 17, 2011 (Agreement) with Deutsche Bank Securities Inc. The Agreement is in connection with the August 15, 2028 bullet maturity payment of the $61,115,000 Unlimited Tax Qualified School Construction Bonds, Series 2011 (QSCB). On August 15, 2013 (Initial Purchase Date), the District deposited $2,851,342, with equal annual purchases scheduled through August 15, 2028 (Final Repurchase Date). The deposits in the sinking fund are for the purchase of obligations of the United States of America or its agencies and instrumentalities. Each deposit will earn interest at 2.80% per annum, calculated on a

30/360 day count basis and shall begin accruing from the Initial Purchase Date and be fixed through the Final Repurchase Date. On the Final Repurchase Date, the sinking fund will have a balance of $61,110,000 available to pay the principal on the QSCB bullet maturity. The balance will consist of the $48,472,820 in total annual purchases and $12,637,180 in interest earnings.

The sinking fund deposits, along with the interest earnings and changes in fair value, are recorded in the Debt Service Fund and in the Statement of Net Position as a long term investment in the amount $16,643,119 as of June 30, 2017. The District reported a decrease in the fair value of $3,163,620 for the year ended June 30, 2017.

For long term investments, the District applies specific identification for purposes of credit risk. The District's investment policy does not address concentration of credit risk as related to the long term investment. The Repurchase Agreement is not rated.

In accordance with GASB 72, the inputs used for the fair value determination were classified as Level 2 (Significant Other Observable Inputs). The District applied pricing models that incorporate the contractual terms of the agreement, the deposit schedule, eligible securities, implied on-market rate on the trade date and any upfront payments made.

G. DUE TO OTHER GOVERNMENTS

The amount reflected as due to other governments is comprised of the following:

	General Fund	Other Governmental Funds	Total
Due to:			
Texas Education Agency	$ 58,081	$ -	$ 58,081
Texas State Comptroller	23	2	25
Texas Workforce Commission	49,467	-	49,467
Total	$ 107,571	$ 2	$ 107,573

H. COMPENSATED ABSENCES

Vacation Payable – The balance for the accumulated vacation leave at the end of the year is reflected in the government-wide Statement of Net Position as a current liability since it is required to be used within the next year or the employee forgoes the days earned and accumulated.

Following is the change in compensated absences:

Balance - July 1, 2016	$	216,434
Plus: Additions		701,592
Less: Payments		(603,828)
Balance - June 30, 2017	$	314,198

The District used the General Fund and/or the applicable Special Revenue Fund based on employee assignment to liquidate compensated absences through the payroll process.

I. LONG TERM DEBT

General Obligation Bonds – The District issued general obligation bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Current principal and interest requirements are payable solely from future revenues of the Debt Service Fund which consist principally of property taxes collected by the District, interest earnings, and state funds. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures.

The District receives a direct subsidy for the Unlimited Tax School Building Bonds, Series 2010B, which is reflected as federal revenue in the Debt Service Fund in the amount of $2,653,701 for the year ended June 30, 2017. The District also receives a direct subsidy for the Unlimited Tax Qualified School Construction Bonds, Series 2011, which is reflected as federal revenue in the Strategic Initiatives Fund in the amount of $2,280,561 for the year ended June 30, 2017.

Refunding Bonds – In previous years, the District issued refunding bonds to legally defease certain outstanding general obligation bonds. The net proceeds were deposited in an irrevocable trust account to provide for all future debt service payments on the refunded obligations. The refunded obligations represent a legal defeasance and are no longer a liability of the District; therefore, they are not included in the District's financial statements. At June 30, 2017, $45,645,000 of previously legally defeased bonds are outstanding.

The following is a summary of changes in bonds payable for the year ended June 30, 2017:

Description	Interest Rate Payable	Range of Maturity	Amounts Original Issue	Amounts Outstanding June 30, 2016	Issued/ Refunding	Retired	Amounts Outstanding June 30, 2017	Due Within One Year
Unlimited Tax Refunding Bonds, Series 2006 Current Interest Bonds	4.0-4.5%	2014-2031	47,290,000	190,000	-	190,000	-	-
Premium Capital Appreciation Bonds		2025	319,988	319,988	-	-	319,988	-
Unlimited Tax Sch. Bldg Bonds, Series 2010B	2.235-6.397%	2014-2040	151,450,000	144,000,000	-	3,815,000	140,185,000	3,895,000
Unlimited Tax Refunding Bonds, Series 2011	2.0-5.0%	2014-2029	99,085,000	80,270,000	-	6,795,000	73,475,000	7,115,000
Unlimited Tax Qualified School Construction Bonds, Series 2011	4.006%	2014-2028	61,115,000	61,115,000	-	-	61,115,000	-
Variable Rate Unlimited Tax Refunding Bonds Series 2014A	.83-7.0%	2017-2044	48,795,000	48,060,000	-	770,000	47,290,000	810,000
Variable Rate Unlimited Tax Refunding Bonds Series 2014B	1.15-7.0%	2018-2044	48,880,000	48,145,000	-	775,000	47,370,000	810,000
Unlimited Tax Sch. Bldg and Refunding Bonds, Series 2015	1.25-5.0%	2016-2045	307,290,000	290,060,000	-	14,895,000	275,165,000	16,255,000
Unlimited Tax Sch. Bldg and Refunding Bonds, Series 2016	2.0-5.0%	2017-2046	123,740,000	123,740,000	-	-	123,740,000	745,000
			$ 887,964,988	$ 795,899,988	$ -	$ 27,240,000	$ 768,659,988	$ 29,630,000

	Balance June 30, 2016	Addition	Retired	Balance June 30, 2017	Due within One Year
Accretion on Capital Appreciation Bonds*	$ 2,317,313	$ 120,026	$ -	$ 2,437,339	$ -

* This represents accretion of interest on a cumulative basis.

The District has never defaulted on any principal or interest payments. There are a number of limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2017.

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

Year Ending June 30	Principal	Interest	Total Requirements
2018	$ 29,630,000	$ 35,359,759	$ 64,989,759
2019	35,915,000	36,396,097	72,311,097
2020	31,335,000	35,991,003	67,326,003
2021	31,360,000	34,411,460	65,771,460
2022	32,905,000	32,821,870	65,726,870
2023-2027	166,319,988	138,397,367	304,717,355
2028-2032	199,075,000	86,745,908	285,820,908
2033-2037	87,030,000	54,423,543	141,453,543
2038-2042	98,545,000	27,398,340	125,943,340
2043-2047	56,545,000	5,553,025	62,098,025
Total	$ 768,659,988	$ 487,498,372	$1,256,158,360

Commercial Paper – In February 2014, the Board adopted an order (the "Order) approving the issuance of San Antonio Independent School District Commercial Paper Notes, Series A ("Commercial Paper Notes") in an aggregate principal amount not to exceed $100,000,000. The proceeds of the Commercial Paper Notes shall be used for constructing, renovating, acquiring, and equipping school buildings for the District, and the purchase of the necessary sites for school buildings, including maintenance and facility operation and improvements, all as authorized by the voters of the District at the November 2, 2010 election, and refinancing, renewing, or refunding Commercial Paper Notes or Loan Notes (as defined in the Order). Proceeds of the Commercial Paper Notes may also be used to pay the costs and expenses of the issuance of the Commercial Paper Notes, including fees for professional services.

The Commercial Paper Notes will mature in not more than 270 days from issuance and are supported by the revolving credit agreement with Royal Bank of Canada ("Credit Agreement"). The Order for the Commercial Paper Notes provides for a maximum maturity date of April 2, 2054. The short-term ratings on the Commercial Paper Program are "F1+" by Fitch and "P-1" by Moody's Investors Service, Inc. The Commercial Paper Notes are secured by a pledge of the proceeds from the sales of Commercial Paper Notes from time to time issued to pay the principal amount of outstanding Commercial Paper Notes and the principal amount of the Loan Notes (as defined in the Order), from the sale of general obligation bonds issued by the District and/or amounts drawn under the Credit Agreement to pay the principal and interest on outstanding Commercial Paper Notes, and/or amounts held in the Commercial Paper Note Payment Account and/or proceeds from ad valorem property taxes. As of June 30, 2017, the District does not have any Commercial Paper Notes outstanding.

Changes in the Commercial Paper are as follows:

	June 30, 2017	June 30, 2016
Beginning of the year liability	$ -	$ -
Debt Service Payment	-	(675,000)
Bonds Issued	-	(36,925,000)
Commercial Paper Issuances	-	37,600,000
End of the year liability	$ -	$ -

J. OTHER LONG-TERM LIABILITIES

(1) Workers' Compensation

Under this program, the District provides coverage up to a maximum of $600,000 per claim and purchases commercial insurance for claims in excess of this coverage. There were no settlements exceeding insurance coverage for each of the past three fiscal years. The total claims liability of $3,271,000 is based on the requirements of Governmental Accounting Standards Board (GASB) Statement No. 10 as amended by GASB Statement No. 30, which requires that a liability for claims be reported if information is available prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. The District records the liability for claims incurred but not reported which is estimated using historical data.

The current portion of the claims liability in the amount of $2,448,144 is reflected as part of current liabilities and the remaining portion of $822,856 is reported as part of noncurrent liabilities in the Proprietary Funds Statement of Net Position.

The District is required to maintain a deposit sufficient to cover 2.5 months of claims with the current administrator of the program, which amounted to $450,000 at June 30, 2017. The deposit is included as part of the Other Current Assets balance in the Proprietary Funds Statement of Net Position.

Changes in the claims liability amount for fiscal years 2016 to 2017 were as follows:

Period	Beginning of Fiscal Year/ Period Liability	Current Year/ Period Claims and changes in Estimates	Claim Payments	Balance at Fiscal Year/ Period End
Year Ended June 30, 2016	$ 4,483,449	$ 909,444	$ (2,469,893)	$ 2,923,000
Year Ended June 30, 2017	2,923,000	2,137,773	(1,789,773)	3,271,000

(2) Accumulated Leave Incentive Plan (ALIP)

Full-time employees are eligible to participate in the ALIP after ten years of consecutive employment with the District and after meeting the requirements of the plan. Under this plan, the District pays ALIP-eligible employees the value of the balance of their state and local leave by contributing it to a 403(b) account upon separation from the District. In accordance with the plan, exempt employees and non-exempt employees accrue $88 and $50, respectively, per day of their state and local leave balances. The District's governing body has the exclusive right to change, suspend, or terminate this program at any time and for any reason based on the needs of the District. The balance of state and local leave as of June 30, 2017 for employees with ten or more years of service is $8,004,993. Of this amount, $7,365,328 is reflected as a noncurrent liability and $639,665 is reflected as a current liability in the Statement of Net Position.

(3) Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The liability is not recorded until payment is actually made or the liability has become due and payable. The District does not have an arbitrage liability as of June 30, 2017.

K. CHANGES IN LONG-TERM LIABILITIES

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

	Amount Outstanding July 1, 2016	Additions	Deletions	Amount Outstanding June 30, 2017	Due Within One Year
Bonds Payable	$ 759,899,988	$ -	$ (27,240,000)	$ 768,659,988	$ 29,630,000
Accretion on Capital Appreciation Bonds	2,317,313	120,026	-	2,437,339	-
Unamortized Bond Premium	55,786,516	-	(6,862,154)	48,924,362	6,475,904
Workers' Compensation *	2,923,000	2,137,773	(1,789,773)	3,271,000	2,448,144
ALIP	8,319,223	2,396,808	(2,711,038)	8,004,993	639,665
Net Pension Liability	94,722,662	10,118,934	(8,131,382)	96,710,214	-
Total	$ 959,968,702	$ 14,773,541	$ (46,734,347)	$ 928,007,896	$ 39,193,713

* The $2,448,144 which is the current portion of the claims liability, is reflected in the claims payable current liability account in the Statement of the Net Position and not as part of the amount due within one year for the noncurrent liabilities.

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at: http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2016.

Net Pension Liability	Total
Total Pension Liability	$171,797,150,487
Less: Plan Fiduciary Net Position	(134,008,637,473)
Net Pension Liability	$ 37,788,513,014
Net Position as percentage of Total Pension Liability	78.00%

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

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

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

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions		$ 8,612,371
2017 Member Contributions		$ 26,691,431
2016 NECE On-Behalf Contributions		$ 15,045,918

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

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

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discounted 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%)
Proportionate share of the net pension liability:	$ 149,674,833	$ 96,710,214	$ 51,785,510

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 $96,710,214 for it 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 pensions liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 96,710,214
State's proportionate share that is associated with the District	178,592,718
Total	$ 275,302,932

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 portion 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 of September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.2559249% which was a decrease of -0.0120418% from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation.

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

Economic Assumptions

1. The inflation assumption is 2.50%.
2. The ultimate merit assumption for long-service employees is 1.00%
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.

4. The payroll growth assumption is 2.50%.

Mortality Assumptions

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

Other Demographic Assumptions

7. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
8. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
9. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
10. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
11. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

12. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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 $18,533,666 and revenue of $18,533,666 for support provided by the State. At June 30, 2017 the District reported is proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experiences	$ 1,516,398	$ 2,887,711
Changes in actuarial assumptions	2,947,554	2,680,679
Differences between projected and actual investment earnings	8,189,221	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	-	8,640,364
Total as of August 31, 2016 measurement date	$ 12,653,173	$ 14,208,754
Contributions paid to TRS subsequent to the measurement date	7,302,509	
Total as of fiscal year-end	$ 19,955,682	$ 14,208,754

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 June 30,	Pension Expense Amount
2018	$ (873,010)
2019	(873,010)
2020	4,350,474
2021	(1,274,268)
2022	(2,426,567)
Thereafter	(459,200)
Total	$ (1,555,581)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total net amounts per August 31, 2016 measurement date	$ 12,653,173	$ 14,208,754
Contributions paid to TRS subsequent to the measurement date	7,302,509	-
Total	$ 19,955,682	$ 14,208,754

For the year ended June 30, 2017, the District recognized pension expense of $10,075,443.

IV. OTHER INFORMATION

A. FUND BALANCE

At June 30, 2017, fund balance is comprised of the following:

	Major Funds				
	General Fund	Debt Service	Capital Projects	Other Funds	Total
Nonspendable:					
Inventories	$ 1,239,573	$ -	$ -	$ 812,200	$ 2,051,773
Endowment Principal	-	-	-	1,000	1,000
Prepaid	105,424	-	-	-	105,424
Restricted:					
Federal or State Funds Grant Restriction:					
National Breakfast and Lunch Program	-	-	-	8,182,619	8,182,619
Capital Acquisition and Contractual Obligation	-	-	25,527,228	-	25,527,228
Retirement of Long-Term Debt	-	87,240,312	-	-	87,240,312
Other					
Scholarships	250,544	-	-	3,039	253,583
Committed:					
Capital Expenditures for Equipment:					
E-Rate	2,231,172	-	-	-	2,231,172
Deferred Technology	-	-	-	789,581	789,581
School Bus & Vehicle Fleet Replacement	-	-	-	1,030,045	1,030,045
Technology Integration	-	-	-	500,000	500,000
Other Committed:					
HVAC Equipment, Building Repairs & Facilities	5,000,000	-	-	-	5,000,000
Campus Activity Funds	-	-	-	721,276	721,276
Compensation Initiative	-	-	-	8,000,000	8,000,000

Deferred Facility Maintenance	-	-	-	3,669,058	3,669,058
Land or Building Purchase	-	-	-	5,456,470	5,456,470
Time & Attendance	-	-	-	500,000	500,000
Federal Grant In-Kind Contingency	-	-	-	1,000,000	1,000,000
Assigned:					
Financial Obligations Carried Forward	2,079,317	-	-	-	2,079,317
Building Repair and Maintenance	-	-	216,695	8,278,845	8,495,540
Unassigned	86,871,777	-	-	(28,739)	86,843,038
Total	$ 97,777,807	$ 87,240,312	$ 25,743,923	$ 38,915,394	$ 249,677,436

B. HEALTH AND DENTAL INSURANCE

HEALTH – The District's employee health benefits, including medical and pharmacy, became partially self-funded starting November 1, 2016. In order to protect our self-funded medical and pharmacy benefit plan assets, the District has in place a stop loss reinsurance policy with PartnerRe America Insurance Company. This policy protects the District from catastrophic claims incurred and paid for the plan year that exceed $500,000 per covered person up to a $1,000,000 aggregate limit. The policy includes a minimum annual aggregate deductible of $46,634,693. PartnerRe has an A.M. Best financial strength rating of A and a long-term issuer credit rating of a+.

During the year ended June 30, 2017, employees of the District were covered by one of four health insurance plans at their option. The District contributed between $411.00 and $487.38 per month, per employee, for medical coverage. Employees, at their option, authorized payroll withholdings to pay premiums for dependents.

The provision for unpaid self funded medical losses at June 30, 2017, in the amount of $3,150,425 is reported in current liabilities as part of claims payable in the Proprietary Funds Statements of Net Position, as it is based upon actual prior claims cost experience and projected time lags (less than 60 days) in settling such claims and actual claims paid after year end. All costs incurred are accounted for as expenditures in the operating funds affected.

As of June 30, 2017, the District is required to maintain a deposit of $800,000 in the District's self-funded Medical bank account. The deposit is included as part of the other current assets balance in the Proprietary Funds Statement of Net Position.

DENTAL – During the year ended June 30, 2017, the District contributed $17.43 per month, per employee, for dental coverage. All benefits were paid by a third party administrator acting on behalf of the District. The Plan was authorized by Section 21.922, Texas Education Code and Article 3.51-2, Texas Insurance Code, and was documented by contractual agreement.

The "Plan Supervisor Agreement" between the District and the third party administrator is automatically renewed for a one-year period, unless terminated as provided in the Standard Terms and Conditions of the Agreement.

The provision for unpaid self funded dental losses at June 30, 2017, in the amount of $382,138 is reported in current liabilities as part of claims payable in the Proprietary Funds Statements of Net Position, as it is based upon actual prior claims cost experience and average time lags (historically, less than 60 days) in settling such claims and actual claims paid after year end. All costs incurred are accounted for as expenditures in the operating funds affected.

As of June 30, 2017, the District is required to maintain a deposit of $22,812 with the third party administrator. The deposit is included as part of the other current assets balance in the Proprietary Funds Statement of Net Position.

C. 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; injuries to employees; and, natural disasters. The District participates in the Texas Political Subdivisions Joint Self-Insurance Funds (SIF), a public entity risk pool currently operating as a common risk management and insurance program for public entities. The District is insured with the SIF for auto liability and physical damage coverage. The SIF is provided so that members will have no joint or several liabilities other than their required contribution. The District operates a limited management program for workers compensation. Premiums are paid by all other funds and are available to pay claims, claim reserve, and administrative costs of the program. There were no significant reductions in coverage in the past fiscal year, and settlements did not exceed insurance coverage for each of the past three fiscal years.

D. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

	Major Funds				
	General Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Property Taxes	$ 183,047,585	$ 53,623,060	$ -	$ -	$ 236,670,645
Investment Income	675,269	(2,416,220)	148,651	21	(1,592,279)
Insurance Recovery	35,873	-	-	3,270	39,143
Penalties, Interest and Other Tax Related Income	1,969,921	564,277	-	-	2,534,198
Food Service Activity	-	-	-	1,045,015	1,045,015
Tuition	82,459	-	-	-	82,459
Rent	338,091	-	-	-	338,091
San Antonio Education Foundation Grant	227,479	-	-	-	227,479
Carol Lee Jones & Weston Grant	29,055	-	-	-	29,055
Athletic Activity	421,572	-	-	-	421,572
Campus Activity	-	-	-	707,951	707,951
Co-curricular Student	19,500	-	-	-	19,500
After School Challenge Program	-	-	-	1,359,607	1,359,607
Other	1,021,084	-	-	2,312,445	3,333,529
Total	$ 187,867,888	$ 51,771,117	$ 148,651	$ 5,428,309	$ 245,215,965

During the year ended June 30, 2017, revenues from local and intermediate sources in the Proprietary Fund Types consisted of the following:

	Internal Service Fund
Insurance Recovery	$ 14,740
Interest Earned	25,667
Charges for Services	39,950,707
Total	$ 39,991,114

E. GENERAL FUND FEDERAL SOURCE REVENUES

Included in the General Fund revenues are the following funded by the federal government:

Program or Source	CFDA Number		Amount
Impact Aid	84.041	$	57,750
Army ROTC	N/A		614,772
School Health and Related Services (SHARS)	N/A		10,706,627
Summer School LEP	84.369		30,287
AP/IB Test Subsidies	84.330		780
Medicaid 1115 COSA	93.235		538,930
Healthy Fut/UTHSC-DOE	93.297		231,735
Indirect Costs			
MS Partner's Grant Irving	16.540		1,072
Adult Education and Family Literacy	84.002		23,505
ESEA Title I, Part A	84.010		596,066
ESEA Title I, Part D	84.010		4,797
Title I, School Improvement Program	84.010		36,717
ESEA Title I, Part C Migrant	84.011		639
IDEA-B Formula	84.027		240,400
Carl D. Perkins, Title I, Part C	84.048		22,429
IDEA-B Preschool	84.173		3,632
Change for Good	84.184		12,489
McKinney Homeless Children Grant	84.196		4,728
Carol White Pep/Grant	84.215		9,872
Eastside Promise Neighborhood	84.215		14,969
Gear-Up Project	84.334		62,302
TTL III, Part A-LEP	84.365		14,173
Title II, Part A TPTR	84.367		114,925
Texas Literacy Init. (STR RDRS)	84.371		70,348
Title I, School Improvement	84.377		44,822
Temporary Assistance for Needy Families	93.558		2,026
Wheatley Comm Sch ED Opp Ctr	84.066		3,194
21st CCLC Cycle 9	84.287		25,007
Title III, Part A Immigrant	84.365		237
Teacher Incentive Fund	84.374		10,272
TTIPS Douglas ES	84.377		23,351
TTIPS Rodriguez ES	84.277		4,974
TTIPS Stewart ES	84.377		7,000
		$	13,534,827

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

F. RETIREE HEALTH PLAN

Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish State, active employee, and public school district contributions, respectively. For fiscal years 2015 through 2017, the State contribution rate was 1.0% of salaries. For fiscal years 2015 through 2017, the active public school employee contribution rate and the District contribution rate were 0.65% and 0.55% of salaries, respectively. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school.

Contributions made by the State on behalf of the District are recorded in the financial statements as both revenues and expenditures. Contributions to TRS-Care made by the State, District, and active employees for the last three (3) years follow:

Fiscal Year	On-Behalf State Contribution	District Annual Required Contribution (ARC)	Percentage of ARC Contributed	Active Member's Contribution
2015	$ 2,774,474	$ 2,264,564	100%	$ 2,113,184
2016	2,859,096	2,340,635	100%	2,180,545
2017	3,013,799	2,415,529	100%	2,276,834

The District has no other liability under the plan as of June 30, 2017.

G. ON BEHALF STATE CONTRIBUTIONS

Medicare Part D – The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Contributions made by the federal government on behalf of the District are recorded in the financial statements as both revenues and expenditures. These payments totaled $1,387,623; $1,367,223; and $1,701,761 for fiscal years 2015, 2016, and 2017 respectively.

H. COMMITMENTS AND CONTINGENCIES

Grants – The District participates in numerous state and federal grant programs that are governed by the rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies. If the District is found to be out of compliance with any rules or regulations governing the grants, the grantor may either deny requests for reimbursement or may require that grant proceeds received be returned. 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.

Contingencies – The District is a party to various legal actions, none of which is believed by management to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

Construction Contracts – Obligations under the current construction contracts will be liquidated in subsequent reporting periods.

I. E-PAYABLES

The District has an automated card payment process (E-Payables) agreement with Bank of America (Bank), which allows the District to electronically pay vendors through a secure card number instead of a check. Vendors are assigned and required to use an individualized card number to electronically draw down their payment. Payments are processed similar to payments made by check; however, instead of receiving a check, the vendor's individualized card is funded by the Bank upon receipt of the e-check listing from the District. The Bank notifies the vendor by e-mail when funds are available so that they may draw down their payment through a credit card network. Once the funds are drawn down, the Bank bills the District.

The Bank bills the District on a monthly basis and allows a 25-day payment grace period or line of credit up to $6 million. As of June 30, 2017, the District had drawn $601,663 on their line of credit, which is reported as part of accounts payable in the general fund, capital projects funds, and other funds.

As an incentive to participate in the program, the District receives rebate checks in amounts that are calculated based on the annual dollar volume of card payments. During the year ended June 30, 2017, the District received rebates in the amount of $37,472.

J. ENDOWMENTS

The District has a donor-restricted endowment, the James Slayden Endowment, which was created to pay a prize to the winner of the best essay on world peace by a senior student at the District.

The District authorizes the spending of endowment investment income according to the directives given by the donors. The net appreciation on investments of the endowment that is available for spending totals $3,039 as of June 30, 2017 and is reported as Other Restricted Fund Balance on the Balance Sheet and as Restricted for Other Purposes on the Statement of Net Position.

K. SUBSEQUENT EVENTS

In August 2017, the District remarketed the $48,795,000 Variable Rate Unlimited Tax Refunding Bonds, Series 2014A (Series 2014A). The Bonds were in the initial rate period, bearing interest at an initial rate, expiring on July 31, 2017. The Bonds were outstanding in the aggregate principal amount of $47,200,000. On August 1, 2017, $810,000 in principal amount was redeemed, and the remaining $46,480,000 was subject to mandatory tender without right of retention. Tendered Bonds in the principal amount of $4,285,000 were retired by the District using proceeds derived from the remarketing and the balance of $42,195,000 was converted to a Fixed Rate Period, remarketed to new holders and remain outstanding subsequent to this remarketing and conversion until the earlier of stated maturity or prior redemption. There are $30,405,000 Serial Bonds with a 5% fixed rate until 2031 then a 4% fixed rate from 2032 to 2039, and there are $11,790,000 Term Bonds with a 4% fixed rate until 2044. The District reserves the right to redeem the Bonds maturing on or after August 1, 2027 in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on August 1, 2026 or any date thereafter at the redemption price of par plus accrued interest to the date of redemption. The Term Bonds maturing on August 1, 2044 are also subject to mandatory sinking fund redemption prior to the stated maturity. Interest on the Bonds will accrue from the closing date of August 1, 2017 and will be payable on each February 1 and August 1 of each year, commencing on February 1, 2018.

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