Ratings: S&P "AA" Stable (BAM Insured) "A-" Negative Outlook (Underlying)
(See "Rating", "Bond Insurance" herein)

OFFICIAL STATEMENT

Dated April 24, 2019

<u>NEW ISSUE</u>: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

$2,690,000
DESOTO INDEPENDENT SCHOOL DISTRICT
(Dallas County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

Dated Date: May 1, 2019 **Due: As shown on inside cover hereof**

The $2,690,000 DeSoto Independent School District Unlimited Tax Refunding Bonds, Series 2019, (the "Bonds"), are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order passed by the Board of Trustees (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property located within DeSoto Independent School District (the "District" or "Issuer"). **<u>The Bonds will not be guaranteed by the State of Texas Permanent School Fund Guarantee Program</u>.**

Interest on the Bonds will accrue from the dated date set forth above and be payable February 15 and August 15 of each year, commencing February 15, 2020 until maturity. The Bonds will be issued in fully registered form in principal denominations of $5,000 or any integral multiple thereof. Principal amount of the Bonds will be payable by the Paying Agent/Registrar (the "Paying Agent/Registrar") which initially is UMB Bank, N.A., Dallas, Texas, upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check or draft dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the close of business as of the last business day of the month next preceding each interest payment date (the "Record Date"), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. (See "Book-Entry-Only System" herein).

Proceeds from the sale of the Bonds will be used to (1) refund certain maturities of the District's outstanding bonds as shown on Schedule I (see Schedule I – Schedule of the Bonds to be Refunded) to restructure the District's debt service and (2) pay costs of issuance of the Bonds.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual. (See "BOND INSURANCE") herein.

BAM
BUILD AMERICA MUTUAL

The Bonds are noncallable. (See "The Bonds – Redemption Provisions").

The Bonds are offered when, as and if issued, and accepted by the Underwriter, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter listed below (the "Underwriter") by Kelly Hart & Hallman LLP, Fort Worth, Texas counsel to the Underwriter. The Bonds are expected to be available for delivery on or about May 22, 2019.

HUTCHINSON, SHOCKEY, ERLEY & CO.

MATURITY SCHEDULE

CUSIP Base Number: 241722

$2,690,000 Current Interest Bonds

Maturity Date 8/15	Principal Amount$	Interest Rate%	Yield%	CUSIP Suffix [1]
2024	495,000	4.000	2.100	FD4
2025	515,000	4.000	2.150	FE2
2026	540,000	4.000	2.200	FF9
2027	560,000	4.000	2.300	FG7
2028	580,000	4.000	2.430	FH5

(Interest to accrue from the Dated Date)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. The Underwriter, the District and the Financial Advisor are not responsible for the selection or correctness of the CUSIP numbers set forth herein.

DESOTO INDEPENDENT SCHOOL DISTRICT

200 E. Beltline Road

DeSoto, Texas 75115

ELECTED OFFICIALS

BOARD OF TRUSTEES

Name	Date Elected	Term Expires	Place	Occupation
Carl Sherman, Jr., President	May 2013	May 2019	1	Self Employed
Karen Daniel, Vice President	May 2014	May 2020	3	Retired Teacher
Tiffany Clark, Secretary	May 2017	May 2010	4	Counselor
Kathy Goad, Member	May 2016	May 2019	2	Retired
Aubrey C. Hooper, Member	May 2011	May 2020	5	Dallas County Juvenile Center
DeAndrea Fleming, Member	May 2018	May 2021	6	Educational Consultant
Amanda Sargent, Member	May 2018	May 2021	7	UT Austin Outreach Counselor

CERTAIN APPOINTED OFFICIALS

NAME	POSITION	YEARS OF SERVICE
Dr. D'Andre Weaver	Superintendent	7 months
Deborah Cabrera	Interim CFO	5 months
Mia Stroy	Chief of Human Resources	2 months
Sonya Cole-Hamilton	Chief of Staff	3 months
Sajade Miller	Chief of Schools	1 month

CONSULTANTS AND ADVISORS

Bond Counsel……………………………………………………………………McCall, Parkhurst & Horton L.L.P., Dallas, Texas
Financial Advisor…………………………………………………………..George K. Baum & Company, Dallas, Texas

FOR ADDITIONAL INFORMATION PLEASE CONTACT:

Leon Johnson
Sr. Vice President
George K. Baum & Company
8115 Preston Rd., Suite 225
Dallas, Texas 75225
(214) 365-8205

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

Certain information set forth herein has been obtained from the District, and other sources which are considered to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, or other matters described herein since the date hereof and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertaking of the District, to provide certain information on a continuing basis.

This official statement contains “forward-looking” statements within the meaning of section 21E of the securities exchange act of 1934, as amended. Such statements may involve known and unknown risks uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

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

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the District. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “Bond Insurance” and “Appendix E- Specimen Municipal Bond Insurance Policy”.

TABLE OF CONTENTS

The cover page hereof, the section entitled “Selected Data from the Official Statement,” this Table of Contents and the Appendices attached hereto are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	DeSoto Independent School District (the "District" or "Issuer") is a political subdivision located in Dallas County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
The Bonds	The Bonds are being issued in the principal amount of $2,690,000 DeSoto Independent School District Unlimited Tax Refunding Bonds, Series 2019 pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order passed by the Board (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved and executed a "Pricing Certificate" which contained final pricing information for the Bonds and completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). Proceeds from the sale of the Bonds will be used to (1) refund certain maturities of the District's outstanding bonds as shown on Schedule I (see Schedule I – Schedule of the Bonds to be Refunded) to restructure the District's debt service and (2) pay costs of issuance of the Bonds.
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company.
Security	The Bonds will constitute direct obligations of the District, payable as to the principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. (See "THE BONDS - Security"). **<u>The Bonds will not be guaranteed by the State of Texas Permanent School Fund Guarantee Program</u>**.
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual.
Optional Redemption	The Bonds are noncallable. (See "THE BONDS – Redemption Provisions").
Tax Exemption	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof.
Payment Record	The District has never defaulted in the payment of its debt obligations.
Legal Opinion	McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued on or about May 22, 2019.

INTRODUCTORY STATEMENT

This Official Statement, including Appendices A, B and D, has been prepared by the DeSoto Independent School District, in Dallas County, Texas (the "District"), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds") identified on the cover page hereof.

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

RECENT EVENTS AFFECTING THE DISTRICT

Texas school district property tax rates are composed of two distinct rates: the maintenance and operations ("M&O") tax rate and the interest and sinking fund ("I&S") tax rate. The M&O tax rate funds the maintenance and operation costs of the District, and the I&S tax rate funds the repayment of bond debt issued to finance capital improvements. Increases in the M&O tax rate can generate additional state funding (See "CURRENT PUBLIC SCHOOL FINANCINE SYSTEM" herein, which provides a general overview of the arrangement for state and local funding of Texas independent school districts). Prior to the District's 2015-2016 fiscal year, the District had a total tax rate of $1.47 per $100 of taxable assessed value, of which $1.04 was collected for M&O and $0.43 was collected for I&S. On September 5, 2015, voters of the District approved a tax ratification election (the "TRE Election") which authorized the District to increase its M&O tax rate by $0.13 to $1.17 per $100 taxable assessed valuation, which is the maximum M&O tax rate allowed by Texas law. Following the TRE Election, the District increased the M&O tax rate to $1.17 and reduced the I&S tax rate by $0.14 to $.029 per $100 of taxable assessed value to offset the $0.13 increase in the M&O tax rate. The result was a total tax rate for the 2015-2016 fiscal year of $1.46 (a decrease of $0.01 from its pre-TRE Election total tax rate).

The reduced I&S collections resulting from the shift described above were expected to be offset by a portion of the additional revenue generated by the increased M&O collections and additional state funding. Such offset should have been reflected in the budget for the 2015-2016 fiscal year, and each fiscal year budget thereafter, by the specific earmarking of such portion of the M&O collections necessary for the payment of debt service. However, the prior administration of the District failed to earmark the additional M&O revenues for the payment of debt service. Instead, the increased revenues were applied towards other operational costs of the District. As a result, the I&S fund was prematurely depleted and, in August of 2018, the prior administration was forced to make an unbudgeted transfer of M&O tax funds in the amount of approximately $8.4 million from the District's general fund to the District's I&S fund in order to make timely payment (the "2018 Transfer").

In September of 2018, following the 2018 Transfer, the District hired the current Superintendent, and Interim CFO. Shortly after being hired, the Interim CFO determined that the prior administration had failed to properly budget for the transfer of M&O collections to pay debt service, and that the 2018 Transfer made by the prior administration would result in a shortfall of the M&O tax funds necessary to meet the day-to-day operations of the District in fiscal year 2018-2019. To address this shortfall, on November 20, 2018, the District borrowed $6,000,000 to pay customary operational expenses of the District, including salaries. This borrowing consisted of a Tax and Revenue Anticipation Note, Taxable Series 2018 (the "TRAN") which was sold to PNC Bank in a private placement transaction. The TRAN bears interest at 3.340% per annum and matures on May 15, 2019. The District intends to pay off the TRAN at or prior to maturity.

Legal limitations prevent the District from using I&S tax funds to pay for maintenance and operations; therefore, the District is precluded from transferring amounts collected in the debt service fund to repay the prior transfers or to cover any future maintenance and operation expenses. In addition, the District's 2018-2019 budget has been amended to account for items not originally budgeted, including employee pay raises, a capital project, a shortfall in the capital projects fund, a loan repayment, and an overestimated average daily attendance resulting in a decrease of state funds. As a result, the 2018 Transfer, together with such unbudgeted expenditures, have resulted in a projected cash flow deficit of approximately $16 million for the 2018-2019 fiscal year.

The District is issuing its Maintenance Tax Notes, Taxable Series 2019 (the "Notes") to address the cash flow deficit. Additionally, neither the current I&S tax rate nor the debt service fund balance is sufficient to meet the debt service payments due on August 15, 2019; therefore, the District is also issuing the Bonds, to refinance and restructure certain of its outstanding bonds in order to realize cash flow relief in connection with the 2019 debt service payments.

As of April, 2019, the District's administration expects to end the 2018-2019 fiscal year with a deficit of approximately $4 million.

Current Administration and Ongoing Investigations Concerning Prior Administration

As discussed above, the District's current Superintendent and Interim CFO were hired by the District in September of 2018. Under the direction of the new Superintendent, the District engaged in a reorganization of its senior administration, which resulted the re-staffing of all cabinet-level employees of the District, effective as of January 1, 2019.

Local news outlets have reported that certain members of the District's prior administration are under investigation by one or more state agencies for the mismanagement of District funds. The District has been advised not to comment on any ongoing investigation, however, the District does not expect that any outcome from the investigation would have any material adverse impact on the financial condition or operations of the District.

Strategic Plan

In combination with the issuance of the Bonds and the Bonds, the District's current administration is developing a strategic plan to restore the District's financial situation. Specifically, the District is taking steps to ensure a healthy general fund balance and sufficient revenues to pay debt service coming due on the District's outstanding bonds. This plan includes budget cuts in the amount of approximately $23 million and increasing the I&S tax rate to an amount sufficient to pay all debt service expenses beginning in the 2020-2021 fiscal year (as a result of the Bonds, the current I&S tax rate is expected to be sufficient to cover the entirety of the August 15, 2019 debt service payment). The District's administration projects that, in the absence of any increase in taxable assessed value within the District, the I&S tax rate may need to be increased by as much as $0.11, to a total I&S rate of $0.43 per $100 in taxable assessed value. The increase of the District's I&S tax rate would not require voter approval.

The largest component of the planned budget cuts is a reduction of District staffing, including a reduction in District administrative, professional and teaching staff of approximately 200 positions. The District has historically maintained student-to-teacher ratios lower than those recommended by the Texas Association of School Boards, and the proposed reductions would result in student-to-teacher ratios at or just above such recommendations. Other budget cuts are expected to include the temporary closure of a District campus, a one-time reduction in the District's technology budget, as well as various other reductions in District spending.

District administration projects that its current plan will restore the general financial health of the District in two years. The plan assumes increased local collections as a result of tax base growth.

The plan described above remains subject to approval by the District's Board of Trustees.

District Credit Rating

See also "RATINGS."

In February, 2019, Fitch Ratings downgraded the District's underlying credit rating from "AA" to "A+", and S&P Global Ratings ("S&P") downgraded the District's underlying credit rating from "A+" to "A." At the same time, S&P placed the District on negative CreditWatch, reflecting its view that S&P might again lower the District's underlying credit rating with 90 days. In March, 2019, S&P downgraded the District's underlying credit rating from "A" to "A-" with a negative outlook. At the same time, S&P removed the District from CreditWatch.

Material Weaknesses and Significant Deficiencies

In preparing the District's audited financial report for the 2017-2018 fiscal year, the District's auditors found that the District's prior CFO did not adequately review fiscal year end reconciliations, resulting in several audit adjustments. In addition, the District's auditors noted as significant deficiencies the District's failure to (1) reimburse expenses without proper documentation, (2) properly review attendance information, and (3) comply with certain federal procurement guidelines. The auditors also noted that the District failed to comply with state and TEA budgeting guidelines.

The District's audited financial report for the 2017-2018 fiscal year set forth the District's concurrence with the recommendations of the District's auditors regarding remedial measures and the District's corrective action plans, which include an emphasis on the hiring of qualified financial staff, and the creation and staffing of a Budget and Grant Manager position.

Buses

As a result of the closure of Dallas County Schools, a school bus transportation agency with which the District contracted to provide transportation for its students, the District intends to enter into a lease-purchase transaction for the acquisition of 35 buses in April of 2019. The lease-purchase would be payable in the principal amount of approximately $3 million dollars, to be repaid with interest over a period of ten years.

THE BONDS

Authorization And Purpose

The Bonds are being issued in the aggregate principal amount of $2,690,000 pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and an order (the "Bond Order") adopted by the Board. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved a "Pricing Certificate" which contained final pricing information for the Bonds and completed the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). Proceeds from the sale of the Bonds will be used to (1) refund certain maturities of the District's outstanding bonds as shown on Schedule I (see Schedule I – Schedule of the Bonds to be Refunded) to restructure the District's debt service and (2) pay costs of issuance of the Bonds.

General Description

The Bonds will be dated May 1, 2019 (the "Dated Date"). The Bonds will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside of the cover page of this Official Statement. Interest on the Bonds is payable each February 15 and August 15, commencing February 15, 2020, until maturity.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof within a maturity. The Bonds shall be transferable only on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount in any authorized denomination upon surrender of the Bonds to be exchanged at the designated corporate trust office of the Paying Agent/Registrar.

Redemption Provisions

Optional Redemption: The Bonds are not subject to optional redemption prior to their stated maturities.

Security

The Bonds are direct obligations of the District and are payable as to both principal and interest from annual ad valorem taxes to be levied on all taxable property within the District, without legal limitation as to rate or amount. (See "State and Local Funding of School Districts In Texas"). **The Bonds will not be guaranteed by the State of Texas Permanent School Fund Guarantee Program.**

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion will be printed on or attached to the Bonds. (See "LEGAL MATTERS"). Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas.

Payment Record

The District has never defaulted in the payment of its debt obligations.

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on August 15, 2019 (see "Schedules I - Schedule of Refunded Bonds") from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and UMB Bank, N.A., Dallas, Texas (the "Escrow Agent").

The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter and, the District will deposit with the Escrow Agent the amount that will be invested pursuant to the Escrow Agreement and such amounts will be sufficient to pay all amounts coming due on the Refunded Bonds to their scheduled payment dates and to accomplish the discharge and final payment of the Refunded Bonds on their payment dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America and (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Ritz & Associates, PA, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "VERIFICATION OF MATHEMATICAL CALCULATIONS").

By the deposit of the Federal Securities and cash, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Ritz & Associates, PA, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Federal Securities and cash held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

Sources And Uses Of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources:	
Par Amount	2,690,000.00
Accrued Interest	6,276.67
Premium	312,102.35
Total Sources of Funds	**$3,008,379.02**
Uses:	
Cash Deposit to Escrow Fund	312.50
Open Market Purchase to Escrow Fund	2,891,909.81
Accrued Interest	6,276.67
*Cost of Issuance	83,931.54
Underwriter's Discount	21,389.64
Additional Proceeds	4,558.86
Total Sources of Funds	**$3,008,379.02**

*Includes Bond Insurance Premium

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding and affected thereby, amend, add to or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition or rescission may (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal of or interest, or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when the payment of the principal of, and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable state law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities, that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the District purchases such securities have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S..Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid.

REGISTERED OWNERS' REMEDIES

The Order establishes specific events of default with respect to the Bonds, and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order and the continuation thereof for a period of sixty days after notice of default is given by the District by any owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of government immunity, and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the the 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “REGISTRATION, TRANSFER AND EXCHANGE” below.

Use of Certain Terms in Other Sections of this Official Statement

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $526 million, $113 million and $414 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

BOND INSURANCE GENERAL RISKS

General

As described above, the District may purchase a Policy from an Insurer in connection with the issuance of the Bonds. If this occurs, the following general municipal bond insurance policy risk factors will apply. In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “REGISTERED OWNERS’ REMEDIES”). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Beneficial Owners. Additionally, the Insurer’s consent may be required in connection with amendments to the Order. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the monies received by the Paying Agent/Registrar pursuant to the Order, as further described in “THE BONDS – Security”. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds. The enhanced long-term rating on the Bonds will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term rating of the Insurer and of the ratings on the Bonds, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. (See the disclosure described in “RATINGS” herein.)

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available to the Bondholders may be limited by applicable bankruptcy law or other similar laws related to insolvency. Neither the District nor the Underwriter have made independent investigation into the claims-paying ability of any Insurer and no assurance nor representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Insurer, particularly over the life of the Bonds.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody’s Investor Services, Inc., Standard & Poor’s Ratings Service, a Standard & Poor’s Financial Services LLC business, and Fitch Ratings (the “Rating Agencies”) have over the past several years downgraded, and/or placed on negative credit watch, the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of these bond insurers, including any Insurer for the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest or on the Bonds and the claims-paying ability of any such Insurer, particularly over the life of the investment.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. The Bonds are being issued in fully registered form in integral multiples of $5,000 of principal amount.

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 of Texas 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 will be printed and delivered to the beneficial owners therof, and thereafter, 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 the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated 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 Owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer.

Record Date For Interest Payment

The record date ("Record Date") for determining the party to whom the interest on any Bond is payable on any interest payment date means the close of business on the last 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

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment.

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.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the District is subject to taxation by the District. Principal categories of exempt property (including certain exemptions which are subject to local option by the board of trustees) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law, certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the District has agreed to abate ad valorem taxes, so-called "freeport property" including property detained in the district for up to 175 days for purpose of assembly or other processing, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a nonprofit corporation used in scientific research and educational activities benefiting a college or university, and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and wind-powered energy devices; most individually owned automobiles; $10,000 exemption to residential homesteads of disabled persons or persons ages 65 or over; up to $12,000 exemption for real or personal property of disabled veterans or the surviving spouses or children of a deceased veteran who died while on active duty in the armed forces; $25,000 in market value for all residential homesteads; and certain classes of intangible property. In addition, except for increases attributable to certain improvements, the District is prohibited by state law from increasing the total ad valorem tax on the residence homestead of persons 65 years of age or older 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 person 65 years of age or older is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property is the homestead of the surviving spouse and the spouse is at least 55 years of age at the time of the death of the individual's 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 - General" 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. See "Appendix A - Financial Information of the District - Assessed Valuation" for a schedule of the exemptions allowed by the District.

The District may elect to participate in a tax increment reinvestment zone if such a zone is created covering an area within the boundaries of the District. Depending on the level of the District's participation in such a zone, if any, the District's ability to retain ad valorem taxes collected on the increased valuation of real property in the tax increment reinvestment zone in excess of the tax increment base value established for the zone would be limited by the provisions of its participation in the zone. The District may also enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The District in turn agrees not to levy a tax on all or a 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. Credit will not be given by the Commissioner of Education in determining a district's wealth per student for (1) the appraised value, in excess of the "frozen" value, or property that is located in a tax increment financing zone created after May 31, 1999 (except in certain limited circumstances where the municipality creating the tax increment financing zone gave notice prior to May 31, 1999 to all other taxing units that the levy of ad valorem taxes in the zone and the zone was and had its final project and financing plan approved by the municipality prior to August 31, 1999), or (2) for the loss of value of abated property under any abatement agreement entered into after May 31, 1993. Notwithstanding the foregoing, in 2001 the Legislature enacted legislation known as the Texas Economic Development Act, which provides incentives for certain school districts to grant tax abatements on certain eligible property to encourage development in their tax base and provides additional State funding for each year of such tax abatement in the amount of the tax credit provided to the taxpayer by the district (See "Current Public School Finance System – State Funding for Local School Districts") for a more detailed discussion of such tax abatements).

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 a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods- in-transit exemptions for items of personal property.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes for previous years based on the new value, including three years for agricultural use and five years for agricultural open-space land and timberland prior to the loss of the designation.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the 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.

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

Residential Homestead Exemption

The Texas Constitution permits the exemption of certain percentages of the market value of residential homesteads from ad valorem taxation. The Constitution authorizes the governing body of each political subdivision in the state to exempt up to twenty percent (20%) of the market value of all residential homesteads from ad valorem taxation, and permits an additional optional homestead exemption for taxpayers 65 years of age or older.

District and Taxpayer Remedies

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

Public Hearing and Rollback Tax Rate

In setting its annual tax rate, the governing body of a school district generally cannot adopt a tax rate exceeding the district's "rollback tax rate" without approval by a majority of the voters voting at an election approving the higher rate. The tax rate consists of two components: (1) 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 - General" 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 Property Tax Code provides that the governing body of a taxing unit is required to adopt the annual tax rate for the unit before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit for the tax year to be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the district if the district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Section 44.004(b), (c) and (d) and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the district delivers substantially all of its tax bills. Beginning September 1, 2009, a district may adopt its budget after adopting a tax rate for the tax year in which the fiscal year covered by the budget begins if the district elects to adopt its tax rate before receiving the certified appraisal roll. A district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

Levy and Collection of Taxes

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. Before September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Trustees of the District based upon the valuation of property within the District as of the preceding January 1. 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 accrued interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes 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.

Pending Legislation Affecting Ad Valorem Taxation

The 86th Regular Legislative Session convened on January 8, 2019 and will conclude on May 27, 2019. Thereafter, the Governor may call one or more additional special sessions, which may last no more than 30 days, and for which the Governor sets the agenda. Pursuant to Article 3, Section 5, of the Texas Constitution, and subject to other exceptions, bills filed during a regular legislative session are prohibited from being passed by the legislature during the first 60 days of the regular legislative session unless an exception authorizing earlier passage applies. Article 3, Section 5, of the Texas Constitution authorizes the Governor to declare certain matters as emergency matters (an "Emergency Item") giving the legislature the opportunity to pass bills that pertain to such Emergency Item within the first 60 days of the Regular Legislative Session.

On January 31, 2019, House Bill 2 and Senate Bill 2 (collectively referred to herein as the "Property Tax Reform and Relief Act of 2019") were filed as companion bills in each chamber of the legislature. The Texas Senate Research Center has described the Property Tax Reform and Relief Act of 2019, as filed, as having the following goals: (1) lowering the rollback rate from the existing 8 percent for the largest taxing units in the State; (2) requiring an automatic tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in current statute; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted.

On February 5, 2019, the Governor declared property tax reform as an emergency item for the session. As a result, the Property Tax Reform and Relief Act of 2019 and other bills pertaining to ad valorem property taxes filed during the 86th Regular Legislative Session will not be subject to a provision of the Texas Constitution that generally provides that no bill may become law within the first 60 days of a legislative session. Therefore, it is possible that the Property Tax Reform and Relief Act of 2019 and other bills pertaining to ad valorem property taxes could become law prior to the Date of Delivery.

Although the District has not made an exhaustive analysis of any effects the Property Tax Reform and Relief Act of 2019 may have, this legislation and other bills that pertain to the Governor's emergency item declaration may affect the District’s local tax revenues.

THE PROPERTY TAX CODE AS APPLIED TO DESOTO INDEPENDENT SCHOOL DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the Dallas County. The Appraisal District is governed by a board of five directors appointed by voters of the governing bodies of the various County political subdivisions of the applicable County.

The District's taxes are collected by the Dallas County Appraisal District.

The District does not grant Freeport exemption.

Split payments are not permitted.

Discounts are not permitted.

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.

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	27[(a)]	6	33

(a) Includes additional penalty of 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.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Litigation and Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to 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 maintenance and operations ("M&O") tax to pay current expenses and an unlimited interest and sinking fund ("I&S") tax to pay debt service on bonds. 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"). 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 "AD VALOREM TAX PROCEDURES – Public Hearing and Rollback Tax Rate"). 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").

State Funding for Local 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 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 201819 State fiscal biennium, the Basic Allotment is $5,140 for each student in average daily attendance. The Basic Allotment is then adjusted for all districts by several different weights to account for inherent differences between school districts. These weights consist of (i) a cost adjustment factor intended to address varying economic conditions that affect teacher hiring known as the "cost of education index," (ii) district-size adjustments for small and mid-size districts, and (iii) an adjustment for the sparsity of the district's student population. The cost of education index, district-size and population sparsity adjustments, as applied to the Basic Allotment, create what is referred to as the "Adjusted Allotment." The Adjusted Allotment is used to compute a "regular program allotment," as well as various other allotments associated with educating students with other specified educational needs.

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

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

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

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

2006 Legislation

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

2017 Legislation

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

Wealth Transfer Provisions

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

The equalized wealth levels that subject Chapter 41 districts to recapture for the 2018-2019 State fiscal biennium are set at (i) $514,000 per student in WADA with respect to that portion of a district's M&O tax effort that does not exceed its compressed tax rate (for most districts, the first $1.00 per $100 of taxable value) and (ii) $319,500 per WADA with respect to that portion of a district's M&O tax effort that is beyond its compressed rate plus $0.06 (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 estimated wealth per student for fiscal year 2018-19 is approximately $331,202, which is more than the equalized wealth value. As a result, given the District's M&O tax rate is above $1.06, the District is subject to certain of the wealth equalization provisions of the Finance System, and the District is required to exercise one of the permitted wealth equalization options for fiscal year 2018-19. Aside from additional state aid to hold the District harmless for tax revenue losses resulting from the increased homestead exemption as provided for in Senate Bill 1 passed during the 84th Texas Legislature, the District, as a so-called "Chapter 41 district," does not receive any State funding to pay debt service requirements on its outstanding indebtedness, including the Bonds. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State
Funding for School Districts."

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

TAX RATE LIMITATIONS

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is $1.50 per $100 of assessed valuation as approved by the voters at an election held on February 7, 2004 under Chapter 45, Texas Education.

The maximum M&O tax rate per $100 of assessed valuation that may be adopted by the District may not exceed the lesser of (A) $1.50 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 fiscal years 2007–08 through 2015–16. The State Compression Percentage is set by legislative appropriation for each State fiscal biennium or, in the absence of legislative appropriation, by the Commissioner. For a more detailed description of the State Compression Percentage, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts." Furthermore, a school district cannot annually increase its tax rate in excess of the district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such election approving the adopted rate. See "AD VALOREM TAX PROCEDURES - Public Hearing and Rollback Tax Rate."

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of a proposition 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 school district bonded indebtedness (see "THE BONDS – Sources and Uses of Funds").

On September 5, 2015, voters approved a maximum M&O Tax Rate of $1.17. See "THE BONDS – Authorization and Purpose" herein.

Chapter 45 of the Texas Education Code, as amended, requires a district to demonstrate to the Texas Attorney General that it has the prospective ability to pay debt service on a proposed issue of bonds, together with debt service on other outstanding "new debt" of the district, 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 State allotments to the district which effectively reduces the district's local share of debt service. 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 debt service on 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) are not subject to the foregoing threshold tax rate test. In addition, taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the $0.50 tax rate test; however, taxes levied to pay debt service on such bonds are included in the calculation of the $0.50 tax rate test as applied to subsequent issues of "new debt." The Bonds are issued as "refunding bonds" issued pursuant to Chapter 1207, Texas Government Code. and are not subject to the $0.50 threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the $0.50 threshold tax rate test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the $0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the $0.50 threshold tax rate test from a tax rate of $0.45 per $100 of valuation. The District has not used projected property values to satisfy this threshold test.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate tests described above under "Tax Rate Limitations" effectively impose a limit on the incurrence of debt. Such tax rate tests 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, and to pay all debt and operating expenses which must be paid from receipts of the district's maintenance tax from a tax not to exceed the lesser of $1.50 or the voted maintenance tax limit. In demonstrating compliance with these requirements, a district may take into account State equalization payments. The State Attorney General reviews a district's calculations showing the compliance with these tests as a condition to the legal approval of the debt.

EMPLOYEES RETIREMENT PLAN

The District's employees participate in a retirement plan with the State of Texas; the Plan is administered by the Teacher Retirement System of Texas. The District has no pension fund expenditures or liabilities.

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

RATINGS

S&P Global Ratings ("S&P") has rated the Bonds "AA" (Stable Outlook) as a result of a municipal bond insurance policy to be issued by Build America Mutual at the time of delivery of the Bonds. The unenhanced, underlying rating on the Bonds, together with the District's tax-supported indebtedness, is affirmed as "A-" (Negative Outlook) by S&P.

The Issuer also has other issues outstanding which are rated "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given and the District makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of said company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds .

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel. A form of such opinion is attached hereto as Appendix C.

The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or sub captions "THE BONDS" (except under the sub captions "Payment Record", and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the sub caption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS", "LEGAL MATTERS", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the sub caption "Compliance with Prior Undertakings") and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and sub captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Kelly Hart & Hallman LLP, Fort Worth, Texas, whose fee is contingent upon the sale and delivery of the Bonds.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity Bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C -- Form of Legal Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the District will rely upon (a) the District's federal tax certificate (b) verification report of Ritz & Associates, PA regarding the sufficiency of the cash deposited pay the principal of and interest on the Refunded Bonds on their payment date, (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactivity to the date of issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the Project. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds") . In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities 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 and other political subdivisions and public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a produce 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the "PFIA"), the Bonds must be rated at least "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to invest in the Bonds, except for purchases for interest and sinking funds of such entities. (See "RATINGS" herein). Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. 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.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. 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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 FDIC or the National Credit Union 47 Share Insurance Fund, or their respective successors; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office 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 (8) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas

Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are 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; (11) securities lending programs if (i) the value of 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 (8) 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, clauses (13) through (15) 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) 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; (13) 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; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) and that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; and, (15) no-load mutual funds registered with the United States Securities and Exchange Commission 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 the investment portfolio is 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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 "AAAm" 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 48 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.

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, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under 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 of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 of Trustees.

The District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument 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 orinvestment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load 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; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

FINANCIAL ADVISOR

George K. Baum & Company is employed as Financial Advisor (the "Financial Advisor") to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

AUTHENTICITY OF FINANCIAL INFORMATION

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

USE OF AUDITED FINANCIAL STATEMENTS

Weaver & Tidwell, L.L.P., the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Weaver & Tidwell, L.L.P.also has not performed any procedures relating to this Official Statement.

LITIGATION

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

VERIFICATION OF ARITHMETICAL COMPUTATIONS

Ritz & Associates, PA, a firm of independent public accountants, will deliver to the District, on or before the settlement date of the Bonds, the Report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Federal Securities, to pay, when due, the maturing principal of and interest on the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes. Such verification will be relied upon by Bond Counsel in rendering its opinions with respect to the exclusion from gross income of interest on the Bonds for federal income tax purposes and with respect to defeasance of the Refunded Bonds.

The verification performed by Ritz & Associates, PA will be solely based upon data, information and documents provided to Ritz & Associates, PA by George K. Baum & Company on behalf of the District. Ritz & Associates, PA has restricted its procedures to recalculating the computations provided by George K. Baum & Company on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

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 certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB").

Annual Reports

The District will provide certain updated financial information and operating data annually to 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 this Official Statement in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and in Appendix D, which is the District's annual audited financial report. The District will update and provide the annual financial information appearing in Appendix A tables described in the preceding sentence within six months after the end of each fiscal year ending in and after 2019 and, if not submitted as part of the annual financial information, the District will provide its audited annual financial report when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes 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, the District must provide updated information included in the Appendix A by the last day of December in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Notices of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Bonds nor the Order provide for debt service reserves, liquidity enhancement, or credit enhancement.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

For the events listed in clause (15) and (16) above, the term “financial obligation” means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.msrb.org.

Limitations and Amendments

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

The District may amend its 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision 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 an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends the agreement, it has agreed to include with any financial information or operating data next 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

In March, 2017, Fitch Ratings upgraded the District’s underlying credit rating from “AA-” to “AA.” No notice was filed pursuant to the Rule describing the upgrade. On February 14, 2019, Fitch Ratings downgraded the District’s underlying credit from “AA” to “A+.” A notice was timely filed pursuant to the Rule describing the downgrade.

Except as described above, during the last five years, the District has complied in all material respects with all continuing disclosure agreements entered into by it in accordance with the Rule.

UNDERWRITING

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page, less an Underwriter’s Discount of $21,389.64. The Underwriter’s obligation is subject to certain conditions precedent, and the Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

FORWARD LOOKING STATEMENTS

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

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

CONCLUDING STATEMENT

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

The Order authorized the Pricing Officer to approve, for and on behalf of the District, the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its use in the reoffering of the Bonds by the Underwriter.

/ Deborah Cabrera
Pricing Officer

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Schedule I

DESOTO INDEPENDENT SCHOOL DISTRICT

Schedule of Bonds to be Refunded

Series To Be Refunded	Principal Amount	Maturities Being Refunded	Principal Amount Being Refunded	Principal Amount Remaining After Refunding
2010B Current Interest Bond	$ 1,275,000.00	2019	$ 1,275,000.00	$ -
2015A Current Interest Bond	$ 1,575,000.00	2019	$ 1,575,000.00	$ -
		TOTAL	$ 2,850,000.00	$ -

APPENDIX A

FINANCIAL INFORMATION REGARDING
DESOTO INDEPENDENT SCHOOL DISTRICT

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FINANCIAL INFORMATION FOR THE DISTRICT

ASSESSED VALUATION

2018 Actual Total Valuation	$ 3,912,059,750
2018 Net Taxable Valuation	$ 3,043,959,261

* Net of the following deductions provided under Article VII of the State Constitution and Tax Abatement

Please note the 2018 values are preliminary, subject to change due to ongoing protests.

Exemption/Deduction (Tax Year 2018)	Total
Residential Homestead ($25,000)	$ 306,344,962
Residential Homestead Over-Age 65/Disabled ($10,000)	105,497,823
Disabled Vets/Survivors (up to $3,000)	72,758,330
Agricultural Use/Productivity	27,141,037
Freeport Exemption	240,613
Pollution Control	27,922
Cap Value Loss	228,180,595
Freeze Value Loss	127,909,207
Prorations/Solar/Wind	0
Value lost to prorations	0
Total	$ 868,100,489

GENERAL OBLIGATION BOND DEBT

Unlimited Tax Bonds		
Current Interest Bonds Outstanding		$ 84,225,000
Maintenance Tax Notes 2019		$ 14,655,000
Refunding 2019		$ 2,690,000
Capital Appreciation Bonds		
Value At Maturity	$ 150,080,000	
Value Not Accreted	49,286,810	
Accreted Value		$ 100,793,190
Limited Maintenance Tax Debt Outstanding		$ 7,745,000
Tax and Revenue Anticipation Note, Series 2018		$ 6,000,000
Total Unlimited Tax Bonds Outstanding		$ 216,108,190
Less: Interest & Sinking Fund Balance (as of 6/30/2019)		$ 1,933,423
Less: Bonds to be Refunded		$ 2,850,000
Net General Obligation Debt		$ 211,324,767

Ratio Net G.O. Debt to Net Taxable Valuation - 6.94%

2018 Population Estimate	55,360	Per Capita Net Valuation	$ 54,985
2018 Enrollment	9,414	Per Capita Actual Valuation	$ 70,666
Area (square miles)	22.31	Per Capita Net G.O. Debt	$ 3,817

PROPERTY TAX RATES AND COLLECTIONS

Tax Year	Net Taxable Valuation	Tax Rate	% Collections Current [1]	% Collections Total [1]	F/Y Ended	Source
2013	$ 2,051,090,725	1.4900	97.60	99.16	06/30/14	(2)
2014	2,162,554,365	1.4700	97.60	99.16	06/30/15	(2)
2015	2,230,583,033	1.4600	97.93	97.93	06/30/16	(2)
2016	2,479,192,909	1.4600	98.64	98.64	06/30/17	(2)
2017	2,793,079,969	1.4900	98.90	98.90	06/30/18	(2)
	Five Year Average		**98.13**	**98.76**		
2018	$ 3,043,959,261	$1.4900	(in process of collection)		06/30/19	(3)

(1) Delinquent tax collections are allocated to the respective years in which the taxes are levied.

(2) District Tax Office dated 11/08/2018 and Texas Municipal Report Dated 10/22/2018

(3) Comptoller report dated 01/31/2019

TAX RATE DISTRIBUTION

	Tax Year	2018	2017	2016	2015	2014
Local Maintenance		$1.1700	$1.1700	$1.1700	$1.1700	$1.0400
Interest & Sinking		0.3200	0.3200	0.2900	0.2900	0.4300
	Total	**$1.4900**	**$1.4900**	**$1.4600**	**$1.4600**	**$1.4700**

2018 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

Name of Taxpayer	Type of Property	Assessed Valuation	% A.V.
DeSoto Apartments Ltd.	Apartments	$31,992,000	1.05%
Oncor Electricity Delivery	Electric	31,646,580	1.04%
Atlas Huntington Ridge	Apartments	20,967,870	0.69%
Wal-Mart Stores, Inc	Retail	17,070,960	0.56%
WRH Properties Inc	Apartments	15,371,890	0.50%
T DeSoto Town Center LLC	Apartments	15,144,230	0.50%
Windsong Dallas LLC	Apartments	13,000,000	0.43%
Atmos Energy Mid Tex	Gas	12,574,520	0.41%
Maclay Carlin DeSoto 1LTD	Shopping Center	11,617,370	0.38%
825 Pleasant LLC	Commercial	11,332,920	0.37%
Total		$180,718,340	5.94%

2017 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

Name of Taxpayer	Type of Property	Assessed Valuation	% A.V.
DeSoto Apartments Ltd.	Apartments	$30,659,000	1.10%
Oncor Electricity Delivery	Electric	29,993,360	1.07%
Wal-Mart Stores, Inc	Retail	20,666,440	0.74%
Atlas Huntington Ridge	Apartments	19,880,890	0.71%
High Street DeSoto LLC	Retail	17,343,440	0.62%
Maclay Carlin DeSoto 1LTD	Shopping Center	17,017,620	0.61%
WRH Properties Inc	Apartments	13,197,590	0.47%
Alliance PJWE LTD PS	Real Estate	12,690,000	0.45%
Atmos Energy Mid Tex	Gas	11,759,620	0.42%
YES Communities	Mobile Home Parks	10,486,270	0.38%
Total		$183,694,230	6.58%

2016 PRINCIPAL TAXPAYERS & THEIR ASSESSED VALUATIONS

Name of Taxpayer	Type of Property	Assessed Valuation	% A.V.
Oncor Electricity Delivery	Electric	$30,308,580	1.22%
DeSoto Apartments Ltd.	Apartments	25,901,100	0.88%
Atlas Huntginton Ridge LLC	Apartments	18,419,070	0.62%
Wal-Mart Stores Texas LP	Retail	11,497,810	0.39%
Atmos Energy Mid Tex	Gas	10,764,900	0.37%
WRH Wintergreen Place Ltd.	Apartments	10,590,260	0.36%
Maclay Carlin DeSoto 1LTD	Shopping Center	9,491,880	0.32%
Intercapital Windsong LLC	Apartments	8,785,920	0.30%
Kaneda Akira	Apartments	8,099,600	0.27%
Alliance PJWE LTD PS	Real Estate	7,675,710	0.26%
Total		$141,534,830	4.80%

	Fiscal Years Ending June 30				
	2018	2017	2016	2015	2014
ASSETS:					
Cash and Cash Equivalents	$6,987,210	$14,298,522	$9,810,489	$16,290,380	$2,396,226
Property Taxes - Delinquent	1,302,621	1,335,015	1,366,169	1,372,319	1,442,194
Allowance for uncollectible taxes (Credit)	(450,230)	(566,471)	(136,617)	(137,232)	(144,219)
Receivables from Other Governments	12,612,732	13,486,937	14,264,479	7,793,475	12,170,561
Accrued Interest	1,312	1,311	1,013	0	0
Due from other funds	2,932,553	442,794	105,193	1,454,638	62,728
Other Receivables	62,738	57,993	356,616	58,975	60,545
Inventories	14,968	13,784	14,441	23,804	13,229
Deferred Expenditures	0	0	0	0	39,326
Total Assets	**$23,463,904**	**$29,069,885**	**$25,781,783**	**$26,856,359**	**$16,040,590**
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	$315,340	$833,884	$897,439	$2,152,530	$462,966
Payroll ded. and withhold. payable	1,418,747	951,297	446,727	383,116	0
Accrued wages payable	7,110,009	7,646,912	7,364,507	6,622,474	5,647,955
Due to other funds	227,213	15,002	3,735	0	91,066
Due to other governments	38,588	0	0	0	0
Due to Student Groups	0	30,029	30,029	36,071	1,417
Accrued Expenditures	0	0	0	0	0
Unearned Revenues	0	0	0	0	9,678
Deferred revenue	0	0	0	0	0
Total Liabilities	**$9,109,897**	**$9,477,124**	**$8,742,437**	**$9,194,191**	**$6,213,082**
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Property taxes	**$1,137,223**	**$984,832**	**$1,229,552**	**$1,235,087**	**$1,297,975**
FUND BALANCES:					
Reserved For:					
Investments in Inventory	$14,968	$13,784	$14,441	$23,804	$13,229
Retirement of Long Term Debt	0	0	0	0	0
Prepaid Items	0	0	0	0	39,326
Capital Acquisition and Contractual Obligati	0	4,585,364	652,966	0	0
Unreserved Designated for:	0	0	0	0	
Construction	0	0	0	5,197,140	0
Unreserved and Undesignated:	0	0	0	0	
Unassigned Fund Balance	13,201,816	14,008,781	15,142,387	11,206,137	8,476,978
Reported in General Fund	0	0	0	0	0
Reported in Special Revenue Funds	0	0	0	0	0
Total Fund Balances	**$13,216,784**	**$18,607,929**	**$15,809,794**	**$16,427,081**	**$8,529,533**
Total Liabilities & Fund Balances	**$23,463,904**	**$29,069,885**	**$25,781,783**	**$26,856,359**	**$16,040,590**

	Fiscal Years Ending June 30				
	2018	**2017**	**2016**	**2015**	**2014**
Beginning Fund Balance	**$18,607,929**	**$15,809,794**	**$16,427,081**	**$8,529,533**	**$9,285,528**
REVENUES:					
Local and Intermediate Sources	$32,982,974	$30,086,731	$27,092,252	$23,303,301	$22,014,067
State Program Revenues	53,657,881	55,269,357	57,649,768	52,783,006	43,744,791
Federal Program Revenues	831,659	949,454	1,110,275	854,595	535,534
Total Revenues	**$87,472,514**	**$86,305,542**	**$85,852,295**	**$76,940,902**	**$66,294,392**
EXPENDITURES:					
Instruction	$49,513,199	$48,936,208	$44,491,455	$41,243,840	$37,532,698
Instructional Resources & Media services	755,401	794,934	700,275	840,131	824,144
Curriculum & Instructional Staff Developmen	1,077,484	1,393,905	1,542,673	1,622,210	851,505
Instructional Leadership	2,489,260	2,419,206	2,522,087	3,869,747	1,677,108
School Leadership	5,868,742	5,877,343	5,432,309	4,900,680	4,625,251
Guidance, Counseling and Evaluation Servic	3,609,519	4,172,321	3,743,263	3,249,832	3,275,688
Social Work Services	343,245	338,951	378,864	328,480	279,464
Health Services	931,487	907,714	862,212	828,942	830,778
Student Transportation	2,506,104	1,957,442	2,563,530	1,906,120	1,403,408
Food Services	56,240	2,079	23,408	16,023	17,638
Extracurricular Activities	2,829,335	3,022,801	2,439,324	2,400,722	2,207,394
General Administration	4,626,489	4,011,349	4,330,686	3,506,523	3,108,332
Facilities Maintenance & Operations	8,361,748	8,583,541	7,890,257	7,602,799	7,821,835
Security and Monitoring Services	678,872	702,740	1,193,262	937,187	629,975
Data Processing	2,682,435	3,655,482	2,437,307	3,166,299	1,419,021
Community Services	1,261,826	625,667	571,112	331,486	101,657
Debt Service:					
Debt Service - Principal on Long Term Debt	460,000	450,000	375,000	0	0
Debt Service - Interest on Long Term Debt	84,450	89,000	93,125	22,431	0
Debt Service - Bond Issuance Cost and Fee:	0	57,300	0	188,322	0
Capital Outlay:	0	0	0	0	
Facilities Acquisition and Construction	4,585,364	509,485	4,617,918	1,433,810	219,683
Intergovernmental:					
Pymnts to Fiscal Agent/Member Districts of S	0	0	0	0	0
Other intergovernmental Charges	132,847	126,972	128,761	121,742	118,939
Pymnts to Juvenile Justice Alternative Ed. Pı	9,612	25,116	32,754	26,028	25,992
Total Expenditures	**$92,863,659**	**$88,659,556**	**$86,369,582**	**$78,543,354**	**$66,970,510**
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,391,145)	(2,354,014)	(617,287)	(1,602,452)	(676,118)
OTHER FINANCING SOURCES (USES):					
Sale of Real and Personal Property	-	-	-	-	-
Non-Current Loans	-	5,152,149	-	9,500,000	-
Transfers In	-	-	-	-	-
Transfers Out (Use)	0	0	0	0	(79,877)
Total Other Resources (Uses)	**-**	**5,152,149**	**-**	**9,500,000**	**-**
Net change in fund balances	(5,391,145)	2,798,135	(617,287)	7,897,548	(755,995)
Prior period adjustment	0	0	0	0	0
Ending Fund Balance	**$13,216,784**	**$18,607,929**	**$15,809,794**	**$16,427,081**	**$8,529,533**

APPENDIX B

ADDITIONAL INFORMATION REGARDING DESOTO INDEPENDENT SCHOOL DISTRICT

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ADDITIONAL INFORMATION REGARDING

DESOTO INDEPENDENT SCHOOL DISTRICT

DeSoto ISD is a public independent school district serving more than 9, 400 students and 1,300 employees. The district is comprised of 15 campuses serving students from early childhood through graduation. A District of Innovation, DeSoto ISD's mission statement is preparing students academically and socially to be problem solvers and productive citizens. The district's 2020 Strategic Plan focuses on individualized learning, quality teachers, equal access and relationships in an effort to provide a holistic and well-rounded educational experience to students and families in DeSoto, Glenn Heights, and Ovilla. For more information about DeSoto ISD, visit www.desotoisd.org

DeSoto ISD graduated its largest class in 2018 totaling over 700 graduates who were awarded more than $14M in scholarships as a class. The 2017-2018 school year also welcomed the district's largest student enrollment population of more than 10,000 students at the start of that school year.

DeSoto ISD Mission Statement : The mission of DeSoto ISD is to prepare each student academically and socially to become problem solvers and productive citizens for a 21st century global society.

Water provided by:	City of DeSoto and City of Glenn Heights
Electricity provided by:	Direct Energy, Hilco
Natural Gas provided by:	Atmos Gas
Telephone service provided by:	AT&T
Bus Services:	DART (Glenn Heights Park and Ride)
Universities and Colleges:	Cedar Valley Community College, Mountain View Community College, University of Texas at Arlington, University of North Texas, Northwood University, Southern Methodist University, Dallas Baptist University, and ITT Technical College

Source: DeSoto ISD

Enrollment Statistics	
Year Ending, 8-31	**Enrollment**
2009	8,916
2010	9,045
2011	9,165
2012	8,972
2013	8,899
2014	9,404
2015	9,604
2016	9,740
2017	9,747
2018	9,737
2019	9,416

As of 10/26/18

FACILITIES

School	Campus Size (acres)	Grades	Capacity	Current Enrollment
Amber Terrace Discovery & Design Early Childhood Academy	14.28	Pre-K	716	533
Cockrell Hill Elementary	12.00	K-5	581	533
Frank D. Moates Elementary	14.46	K-5	750	482
Northside Elementary	7.00	K-5	553	392
Ruby Young Elementary	7.92	K-5	606	425
Woodridge Elementary	12.00	K-5	700	563
The Meadows Elementary	11.11	K-5	581	437
Katherine Johnson Technology Magnet	12.00	K-5	900	544
East Middle School	29.30	6-8	750	577
West Middle School	22.00	6-8	700	723
Curtistene S. McCowan Middle School	36.00	6-8	1,000	964
DeSoto High School	102.36	9-12	3,950	3,106
DAEP	6.00	2-12	n/a	11
WINGS	n/a	9-12	120	84

ADDITIONAL SITES OWNED BY THE DISTRICT

Name/Location of Site	Size (acres)	Expected Use (what grades)	Expected Student Capacity
Cockrell Hill and Bear Creek Roads	25.17	Unknown	Unknown
Parkerville and Westmoreland Road	55.02	Unknown	Unknown
Uhl Road and Parkerville	46	Unknown	Unknown

PORTABLE CLASSROOMS OWNED BY THE DISTRICT

Campus Location	Number of Classrooms	Will Construction Allow Removal
Woodridge Elementary	2	No
Frank D. Moates Elementary	1	No
Ruby Young Elementary	2	No
East Middle School	5	No
Amber Terrace Elementary	2	No
West Middle School	3	No
Northside Elementary	2	No

EMPLOYMENT OF THE DISTRICT

Teachers…………………………………………………………….	687
Administrators………………………………………………….	57
Teacher Aides & Secretaries…………………………………….	146
Auxiliary Employees……………………………………………….	240
Professional Support…………………………………………….	168
Total Number of Employees……………………………………..	1,298

ADDITIONAL INFORMATION REGARDING DALLAS COUNTY, TEXAS

Dallas County, located in North Central Texas, is the second most populous county in Texas and the ninth most populous in the United States. Interstate highways 20, 30, 35E, and 635 and U.S. highways 67, 75, 80, and 175 cross the county, in addition to other prominent roads, and the area is also served by several railroad lines, including the Union Pacific, the Burlington Northern Santa Fe, and the Kansas City Southern. Dallas County is comprised of 902 square miles with the City of Dallas being the county seat and largest city. The economy of Dallas County is diverse, with dominant sectors including defense, financial services, information technology, telecommunications and transportation, it also hosts several Fortune 500 companies.

In 2017, the estimated population was 2,618,148 with a growth rate of 1.19% in the past year, with the surrounding metroplex having the largest population increase of any metro area in 2017. A number of museums are located in Dallas County, including the Dallas Museum of Art, the Perot Museum of Nature and Science, the Nasher Sculpture Center, and the Frontiers of Flight Museum. The county also has a plethora of special events, including the famous State Fair of Texas, the Cotton Bowl Classic football game, and the Byron Nelson Golf Classic. The county has tall grasses with pecan and oak trees along streams and mesquite on the prairies. Though the rich soil is the main mineral resource of Dallas County, gravel and sand have been mined from the Trinity floodplain, cement has been made from the local soft limestone, and bricks have been manufactured from the county's clay.

LABOR FORCE STATISTICS FOR DALLAS COUNTY

	2018	2017	2016	2015	2014
Labor Force	1,348,530	1,346,137	1,315,324	1,279,162	1,256,218
Employed	1,297,315	1,301,231	1,264,503	1,230,601	1,201,257
Unemployed	51,215	44,906	50,821	48,561	54,961
Percent of Labor Force Unemployed	3.8%	3.3%	3.9%	3.8%	4.4%

As of December 2018
Source: Labor Market Information Department, Texas Workforce Commission.

Comparative Unemployment Rates

	2018	2017	2016	2015	2014
Dallas County	3.8%	3.3%	3.9%	3.8%	4.4%
State of Texas	3.6%	3.7%	4.5%	4.2%	4.2%
United States of America	3.7%	3.9%	4.5%	4.8%	5.4%

As of December 2018.
Source: Labor Market Information Department, Texas Workforce Commission.

PENSION FUND LIABILITY

The District has no direct liability for pensions. A mandatory contribution of a percentage of gross salary is made by all employees to the Texas Retirement System of Texas. The District is required to deduct and forward the contributions to the State Administered System.

TAX RATE LIMITATIONS

For Debt Service:	Unlimited Tax Bonds - No Limitation (Chapter 45, Tx. Education Code)	
For Local Maintenance:	$1.50 per $100 of Assessed Valuation	(Chapter 45 voted February 7, 2004)

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body		Amount		As Of	% Overlap		$ Overlap
Cedar Hill, City of	$	75,685,000.00	*	10/31/18	0.12%	$	90,822
Dallas Co.		172,265,000.00	*	10/31/18	1.27%		2,187,766
Dallas Co CCD		228,350,000.00	*	10/31/18	1.27%		2,900,045
Dallas Co Hospital District		687,775,000.00	*	10/31/18	1.27%		8,734,743
Dallas County Schools		36,600,000.00	*	10/31/18	1.27%		464,820
DeSoto, City of		67,290,000.00	*	10/31/18	71.58%		48,166,182
Glenn Heights, City of		16,085,000.00	*	10/31/18	68.03%		10,942,626
Ovilla, City of		4,670,000.00	*	10/31/18	6.13%		286,271
Total Net Overlapping Debt						$	73,773,275
Desoto ISD	$	211,324,766.60		04/24/19	100.00%		211,324,767
Total Direct and Overlapping Debt...						$	285,098,042

* Gross Debt

Direct and Overlapping Debt to Net Taxable Valuation	9.37%
Direct and Overlapping Debt to Actual Total Valuation	7.29%
Per Capita Direct and Overlapping Debt	$5,150

2018 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Cedar Hill, City of	$	0.697000
Dallas Co.	$	0.243100
Dallas Co CCD	$	0.124000
Dallas Co Hospital District	$	0.279400
Dallas County Schools	$	1.412035
DeSoto, City of	$	0.721394
Glenn Heights, City of	$	0.879181
Ovilla, City of	$	0.660000

CAPITAL LEASES

NONE

NOTES PAYABLE

June 28,2017 district issued note payable to purchase HVAC equipment and energy management controls. $5,152,149 outstanding 6/30/2018 15 year repayment of $433,532.

MAINTENANCE TAX DEBT

F/Y Ended 6-30	Outstanding M&O Funded Debt	
	QZAB Annual Payment	**Energy Management** Annual Payment
2019	557,450	433,532
2020	562,650	433,532
2021	567,750	433,532
2022	572,750	433,532
2023	582,650	433,532
2024	587,400	433,532
2025	592,050	433,532
2026	596,600	433,532
2027	606,050	433,532
2028	610,350	433,532
2029	619,550	433,532
2030	623,600	433,532
2031	632,550	433,532
2032	641,350	433,532
2033		433,532
	8,352,750	6,502,983

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Total Tax Roll for Tax Years - Per Comptroller's Report

	Fiscal Years Ending June 30,			Fiscal Years Ending August 31,	
Property Use Category	**2018**	**2017**	**2016**	**2015**	**2014**
Single-Family Residential	$ 3,141,266,140	$ 2,667,804,650	$ 2,431,978,810	$ 2,082,963,050	$ 1,915,720,970
Multi-Family Residential	252,053,680	227,493,610	195,224,360	189,116,490	176,974,910
Vacant Lots/Tracts	55,118,730	63,456,570	60,521,470	58,136,310	55,767,300
Acreage (Land Only)	27,548,950	445,525	429,683	408,237	324,391
Farm and Ranch Improvements	821,450	904,810	915,671	1,300,340	1,234,880
Commercial and Industrial	273,136,010	259,358,667	250,667,790	241,013,800	223,851,670
Non producing minerals	-	-	-	-	-
Residential Inventory	108,830	285,330	318,930	402,930	430,930
Business, Tangible	74,821,190	73,298,520	71,913,460	73,976,630	71,400,530
Other, Tangible	-	-	-	-	-
Mobile Homes	12,009,520	11,770,060	10,914,500	10,351,290	9,297,770
Special/Real Inventory	12,154,330	11,921,490	12,206,510	11,370,150	11,158,600
Utilities	63,020,920	59,061,520	57,346,310	56,078,190	55,708,570
Total Assessed Valuation	**$ 3,912,059,750**	**$ 3,375,800,752**	**$ 3,092,437,494**	**$ 2,725,117,417**	**$ 2,521,870,521**
Less Exemptions:					
Residential Homestead	$ 306,344,962	$ 295,052,956	$ 293,959,944	$ 286,286,169	$ 172,198,808
Disabled/Deceased Veterans	72,758,330	44,239,873	47,147,551	32,460,670	28,305,514
Over-65 and/or disabled	105,497,823	41,519,468	40,219,237	36,225,530	34,763,188
Freeport Loss	240,613	86,809	267,470	-	1,837,989
Cap Value Loss	228,180,595	98,808,857	113,811,534	35,914,911	18,470,191
Freeze Value Loss	127,909,207	98,765,425	112,267,397	95,425,890	95,900,136
Exempt	-	-	-	-	-
Pollution Control	27,922	30,467	33,952	1,282	1,282
Agriculture Use/Productivity	27,141,037	4,216,928	5,537,500	8,219,932	7,839,048
Total Exemptions	**$ 868,100,489**	**$ 582,720,783**	**$ 613,244,585**	**$ 494,534,384**	**$ 359,316,156**
Taxable Assessed Valuation (1)	**$ 3,043,959,261**	**$ 2,793,079,969**	**$ 2,479,192,909**	**$ 2,230,583,033**	**$ 2,162,554,365**

(1) **Includes Frozen values**

Please note the 2018 values are preliminary, subject to change.

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

				Percent of Total Tax Roll for Tax Years	
Property Use Category	**2018**	**2017**	**2016**	**2015**	**2014**
Single-Family Residential	80.30%	79.03%	78.64%	76.44%	75.96%
Multi-Family Residential	6.44%	6.74%	6.31%	6.94%	7.02%
Vacant Lots/Tracts	1.41%	1.88%	1.96%	2.13%	2.21%
Acreage (Land Only)	0.70%	0.01%	0.01%	0.01%	0.01%
Farm and Ranch Improvements	0.02%	0.03%	0.03%	0.05%	0.05%
Commercial and Industrial	6.98%	7.68%	8.11%	8.84%	8.88%
Non producing minerals	0.00%	0.00%	0.00%	0.00%	0.00%
Residential Inventory	0.00%	0.01%	0.01%	0.01%	0.02%
Business, Tangible	1.91%	2.17%	2.33%	2.71%	2.83%
Other, Tangible	0.00%	0.00%	0.00%	0.00%	0.00%
Mobile Homes	0.31%	0.35%	0.35%	0.38%	0.37%
Special/Real Inventory	0.31%	0.35%	0.39%	0.42%	0.44%
Utilities	1.61%	1.75%	1.91%	2.17%	2.21%
	100.00%	100.00%	100.06%	100.11%	100.00%

Note: Totals may not equal 100% due to rounding

DESOTO INDEPENDENT SCHOOL DISTRICT
OUTSTANDING AND NEW DEBT SERVICE REQUIREMENTS

Debt Service Requirements of the Refunding Series 2019

Fiscal Year Ended 6/30	Outstanding Debt Service Requirements	Less: Bonds to be Refunded	Principal	Interest	Total	Total Debt Service Requirements
2019	$ 14,436,731.25	$ -	$ -	$ -	$ -	$ 14,436,731.25
2020	14,408,368.75	2,905,312.50	-	84,844.44	84,844.44	11,587,900.69
2021	15,163,806.25	-	-	107,600.00	107,600.00	15,271,406.25
2022	15,971,731.25	-	-	107,600.00	107,600.00	16,079,331.25
2023	15,958,456.25	-	-	107,600.00	107,600.00	16,066,056.25
2024	15,915,431.25	-	-	107,600.00	107,600.00	16,023,031.25
2025	14,726,356.25	-	495,000.00	97,700.00	592,700.00	15,319,056.25
2026	14,745,281.25	-	515,000.00	77,500.00	592,500.00	15,337,781.25
2027	14,740,701.25	-	540,000.00	56,400.00	596,400.00	15,337,101.25
2028	14,708,706.25	-	560,000.00	34,400.00	594,400.00	15,303,106.25
2029	14,719,856.25	-	580,000.00	11,600.00	591,600.00	15,311,456.25
2030	14,705,381.25	-	-	-	-	14,705,381.25
2031	14,692,056.25	-	-	-	-	14,692,056.25
2032	11,081,281.25	-	-	-	-	11,081,281.25
2033	10,927,271.25	-	-	-	-	10,927,271.25
2034	10,792,168.75	-	-	-	-	10,792,168.75
2035	10,646,718.75	-	-	-	-	10,646,718.75
2036	10,494,706.25	-	-	-	-	10,494,706.25
2037	10,349,850.00	-	-	-	-	10,349,850.00
2038	12,424,218.75	-	-	-	-	12,424,218.75
2039	8,224,884.38	-	-	-	-	8,224,884.38
2040	6,027,500.00	-	-	-	-	6,027,500.00
2041	4,694,999.99	-	-	-	-	4,694,999.99
TOTAL	**$290,556,463.12**	**$ 2,905,312.50**	**$2,690,000.00**	**$792,844.44**	**$3,482,844.44**	**$291,133,995.06**

TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING BONDS

Projected Average of payments post refunding 2019-2023......................................		$14,688,285.14
less: projected EDA and IFA payments from the State		2,334,821.00
District's Net Requirement		$12,353,464.14
Based on Projected 2018 Taxable Valuation of ………………………………………		$3,043,959,261
$0.4874	Tax rate w/ tax collections of 99.00%	$14,688,285.14

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

(Date of Delivery of Bonds)

Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

DESOTO INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2019

IN THE AGGREGATE PRINCIPAL AMOUNT OF $2,690,000

AS BOND COUNSEL for the DeSoto Independent School District (the "*Issuer*"), the issuer of the Bonds described above (the "*Bonds*"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including the executed Bond Numbered T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to principles of sovereign immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the verification report of Ritz & Associates, PA as to the amounts initially deposited to the to the escrow fund to pay the redemption price of the refunded bonds, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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 (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

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APPENDIX D

The information contained in this Appendix has been reproduced from the DeSoto Independent School District Annual Financial Report (the "Report") for the Fiscal Year Ended June 30, 2018.

THE INFORMATION PRESENTED REPRESENTS ONLY A PART OF THE REPORT AND DOES NOT PURPORT TO BE A COMPLETE STATEMENT OF THE DISTRICT'S FINANCIAL CONDITION. REFERENCE IS MADE TO THE COMPLETE REPORT FOR ADDITIONAL INFORMATION

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DeSoto Independent School District

Annual Financial Report
For the Fiscal Year Ended June 30, 2018

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DeSoto Independent School District

Annual Financial Report
For the Fiscal Year Ended June 30, 2018
Table of Contents – Continued

DeSoto Independent School District

Annual Financial Report
For the Fiscal Year Ended June 30, 2018
Table of Contents – Continued

Certificate of Board

DeSoto Independent School District	Dallas	057-906
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ________ approved ______ disapproved For the fiscal year ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 12th day of November, 2018.

Signature of Board Secretary

Signature of Board President

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Financial Section

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Independent Auditor's Report

To the Board of Trustees
DeSoto Independent School District
DeSoto, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto Independent School District (the District), as of and for the year ended June 30, 2018, 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 Standard* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Weaver and Tidwell, L.L.P.
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The Board of Directors
DeSoto Independent School District

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, 2018, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1.C. and Note 9 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary 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.

Supplementary 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 supplementary information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is also not a required part of the basic financial statements.

The supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 12, 2018 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

Management's Discussion and Analysis

As management of DeSoto Independent School District (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 14.

Financial Highlights

- The District's total net position at June 30, 2018 was ($70,078,126) (negative net position). Of this amount, ($109,028,930), represents negative unrestricted net position.

- In The District's total net position increased by $5,052,308 during the fiscal year prior to the restatement for the change in accounting principle.

- As of June 30, 2018, the District's governmental funds reported combined ending fund balances of $18,516,837. Approximately 71% of this total amount, $13,201,816, is unassigned and available for use within the District's fund balance policies.

- At the end of the current fiscal period, unassigned fund balance for the general fund was $13,201,816 or 14% of the total general fund expenditures.

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 (on pages 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt 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 (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. 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 District.

The notes to the financial statements (starting on page 29) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The TEA required 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.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the period while the statement of activities includes all revenues and expenses generated by the District's operations during the period. These apply the accrual basis of accounting (the basis used by private sector companies).

All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets and deferred outflows of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources 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 changes in them. The District's net position (the difference between assets and deferred outflows of resources; less liabilities and deferred inflows of resources) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

The government-wide financial statements of the District are primarily supported by taxes and intergovernmental revenues. The governmental activities of the District include: instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration.

In fiscal year 2018, the District adopted the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – which superseded GASB Statement No. 45.*

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit OPEB plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The effects of the adoption of this statement has no impact on the District's governmental fund financial statements. However, adoption has resulted in certain changes to the presentation of the financial statements of the District's government-wide financial statements. More information on the adoption of this statement and the District's OPEB plan is available in Note 1. C. and Note 9, respectively.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental funds* – Most of the District's basic services are reported 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 report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's 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 fund financial statements.

- *Proprietary funds* – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the statement of net position and the statement of activities. The internal service fund reports the District's self-insurance workers compensation program that provides services for the District's other programs and activities.

- *Fiduciary funds* – Fiduciary funds are used to account for resources held for the benefit of students and for a scholarship fund. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

Government-Wide Financial Analysis

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Negative net position of the District's governmental activities increased from ($75,130,434) as restated, to ($70,078,126). Unrestricted net position, the part 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, was ($109,028,930) at June 30, 2018.

Table I
DeSoto Independent School District
Net Position

	Governmental Activities June 30, 2018	Governmental Activities June 30, 2017
Current and other assets	$ 32,994,256	$ 72,333,678
Capital assets, net	183,382,926	156,822,353
Total assets	216,377,182	229,156,031
Deferred outflows of resources	16,389,744	15,895,921
Long-term liabilities	271,152,096	245,479,468
Other liabilities	14,548,782	11,436,764
Total liabilities	285,700,878	256,916,232
Deferred inflows of resources	17,144,174	1,310,561
Net position		
Net investment in capital assets	37,981,783	(4,969,181)
Restricted	969,021	11,526,282
Unrestricted	(109,028,930)	(19,731,942)
Total net position	$ (70,078,126)	$ (13,174,841)

Table II
DeSoto Independent School District
Changes in Net Position

		Governmental Activities Year Ended June 30, 2018		Governmental Activities Year Ended June 30, 2017
Revenues				
Program revenues				
Charges for services	$	1,870,914	$	2,300,605
Operating grants and contributions		9,957,721		22,104,725
General revenues				
Maintenance and operations taxes		31,989,503		26,174,908
Debt service taxes		8,749,337		6,502,485
State aid		49,914,266		54,336,093
Grants and contributions not restricted		25,419		30,848
Investment earnings		500,462		91,540
Miscellaneous		225,464		563,900
Total revenues		103,233,086		112,105,104
Expenses				
Instruction, curriculum and media services		44,863,264		57,537,907
Instructional and school leadership		7,684,305		10,230,476
Student support services		7,039,559		7,770,525
Child nutrition		6,958,196		6,186,469
Extracurricular activities		3,034,528		3,420,291
General administration		4,077,332		4,756,603
Plant maintenance, security, and data processing		11,649,689		11,455,106
Community services		2,233,151		771,977
Debt service		10,450,864		9,189,636
Facilities acquisition and construction		47,431		242,270
Juvenile Justice Alternative Education Program		9,612		32,754
Other intergovernmental charges		132,847		128,761
Total expenses		98,180,778		111,722,775
Increase (decrease) in net position		5,052,308		382,329
Net position at beginning of year before restatement		(15,696,710)		(13,557,170)
Change in accounting principle		(59,433,724)		-
Net position at end of year	$	(70,078,126)	$	(13,174,841)

The District showed a decrease in revenue of -7.9%. State Foundation revenue decreased due to enrollment and the effect of higher maintenance and operations tax collections on the State funding formula. Operating grants and contributions decreased due to the reduction of OPEB expense related to recording the State's on-behalf contribution.

- Average daily attendance decreased by 165 students or 1.8%.

- The District's General Fund expenditures increased $4.2 million due primarily to an increase in capital project expenditures related to the energy upgrade initiative financed through maintenance tax notes.

- The District's maintenance and operations (M&O) tax rate remained the same at $1.17 per $100 valuation. The District's debt service tax rate (I&S) increased from $0.29 per $100 valuation to $0.32 per $100 valuation.

The cost of all governmental activities for the current fiscal period was $98,180,778. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only $40,738,840 because some of the costs were paid by those who directly benefited from the programs ($1,870,914) or by other governments and organizations that subsidized certain programs with grants and contributions ($9,957,721) or by State equalization funding ($49,914,266).

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of $18,516,837, which is $36,199,314 less than last year's total of $54,716,151. Included in this period's total change in fund balance is a decrease of -$5,391,145 in the District's general fund and a decrease of -$3,409,794 in the District's debt service fund. The capital projects fund decreased -$27,212,592 due to construction payments on the new elementary school.

The District amends the budget as needed throughout the year. The final budgeted expenditures increased by $6,813,706 primarily due to facilities acquisition and construction in the current year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the District had $183,382,926 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of $26,359,736, or 16.8%, more than the prior year.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration
At June 30, 2018, the District had $217,648,878 in long-term debt outstanding (including accreted interest on capital appreciation bonds) versus $222,539,539 last year – a decrease of $4,890,661.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District's maintenance and operations tax rate will remain at $1.17 per $100 of taxable valuation, and the debt service tax rate will remain at $0.32 per $100 of taxable valuation.

The District expects a 2.58% increase in average daily attendance during the 2018-2019 school year. Property values are expected to increase 11.32%.

The District's general fund original budget has budgeted expenditures to decrease $2 million due to lower facilities acquisition and construction costs offset by increased staffing levels.

The District's general fund original budget has budgeted revenues $1,662,800 in excess of budgeted expenditures.

Contacting the District's Financial Management
This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 need additional financial information, contact the District's business office at DeSoto Independent School District, 200 East Beltline Road, DeSoto, Texas 75115; (972) 223-6666.

Basic Financial Statements

DeSoto Independent School District

Exhibit A-1

Statement of Net Position
June 30, 2018

Data Control Codes		Primary Government Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	$ 13,243,826
1120	Investments	2,498,075
1220	Property taxes receivable (delinquent)	1,686,116
1230	Allowance for uncollectible taxes	(614,434)
1240	Due from other governments	16,025,395
1250	Accrued interest	3,553
1290	Other receivables, net	136,757
1300	Inventories	14,968
	Capital assets	
1510	Land	8,174,624
1520	Buildings, net	141,187,584
1530	Furniture and equipment, net	4,630,026
1580	Construction in progress	29,390,692
1000	Total assets	216,377,182
	DEFERRED OUTFLOWS OF RESOURCES	
1701	Deferred loss on bond refundings	7,115,131
1705	Deferred outflows of resources - pensions	8,839,092
1706	Deferred outflows of resources - OPEB	435,521
1700	Total deferred outflows of resources	16,389,744
	LIABILITIES	
2110	Accounts payable	3,418,633
2140	Accrued interest payable	1,497,035
2150	Payroll deductions and withholdings	1,418,747
2160	Accrued wages payable	7,737,747
2180	Due to other governments	338,469
2300	Unearned revenue	138,151
	Noncurrent liabilities	
2501	Due within one year	11,278,182
2502	Due in more than one year	206,516,750
2540	Net pension liability (District's share)	19,502,787
2545	Net OPEB liability (District's share)	33,854,377
2000	Total liabilities	285,700,878
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows of resources - pensions	2,982,824
2606	Deferred inflows of resources - OPEB	14,161,350
2600	Total deferred inflows of resources	17,144,174
	NET POSITION	
3200	Net investment in capital assets	37,981,783
3820	Restricted for federal and state programs	969,021
3900	Unrestricted	(109,028,930)
3000	**TOTAL NET POSITION**	$ (70,078,126)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit B-1**

Statement of Activities

For the Year Ended June 30, 2018

Data Control Codes	Functions/Programs	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 Government Governmental Activities
	PRIMARY GOVERNMENT				
	Governmental activities				
11	Instruction	$ 42,782,756	$ 312,361	$ 201,873	$ (42,268,522)
12	Instructional resources and media	638,327	-	(72,124)	(710,451)
13	Curriculum and staff development	1,442,181	-	419,289	(1,022,892)
21	Instructional leadership	2,910,954	-	1,939,027	(971,927)
23	School leadership	4,773,351	-	(544,786)	(5,318,137)
31	Guidance, counseling and evaluation	3,152,196	-	471,149	(2,681,047)
32	Social work services	516,094	-	63,191	(452,903)
33	Health services	736,397	-	(88,936)	(825,333)
34	Student transportation	2,634,872	-	(239,277)	(2,874,149)
35	Food services	6,958,196	1,110,479	5,687,202	(160,515)
36	Cocurricular/extracurricular activities	3,034,528	339,738	369,932	(2,324,858)
41	General administration	4,077,332	-	(390,235)	(4,467,567)
51	Plant maintenance and operations	8,031,624	108,336	(798,359)	(8,721,647)
52	Security and monitoring services	794,953	-	(64,817)	(859,770)
53	Data processing services	2,823,112	-	(253,490)	(3,076,602)
61	Community services	2,233,151	-	1,578,601	(654,550)
72	Debt service - interest on long term debt	10,448,464	-	2,130,882	(8,317,582)
73	Debt service - bond issuance cost and fees	2,400	-	-	(2,400)
81	Facilities acquisition and construction	47,431	-	-	(47,431)
	Payments to Juvenile Justice				
95	Alternative Education Program	9,612	-	-	(9,612)
99	Other intergovernmental charges	132,847	-	(451,401)	(584,248)
TP	**TOTAL PRIMARY GOVERNMENT**	$ 98,180,778	$ 1,870,914	$ 9,957,721	$ (86,352,143)

	General revenues	
	Taxes	
MT	Property taxes, levied for general purposes	$ 31,989,503
DT	Property taxes, levied for debt service	8,749,337
SF	State aid - formula grants	49,914,266
GC	Grants and contributions not restricted	25,419
IE	Investment earnings	500,462
MI	Miscellaneous local and intermediate revenue	225,464
TR	Total general revenues	91,404,451
CN	Change in net position	5,052,308
NB	Net position (deficit) - beginning	(15,696,710)
PA	Prior period adjustment - (Note 15)	(59,433,724)
	Net position (deficit) - beginning, as restated	(75,130,434)
NE	**NET POSITION (DEFICIT) - ENDING**	$ (70,078,126)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District
Balance Sheet
Governmental Funds
June 30, 2018

Data Control Codes		10 General Fund	50 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	$ 6,987,210	$ 1,736,651
1150	Investments	-	2,498,075
1220	Property taxes - delinquent	1,302,621	383,495
1230	Allowance for uncollectible taxes (credit)	(450,230)	(164,204)
1240	Due from other governments	12,612,732	1,188
1250	Accrued interest	1,312	-
1260	Due from other funds	2,932,553	-
1290	Other receivables	62,738	-
1300	Inventories	14,968	-
1000	Total assets	$ 23,463,904	$ 4,455,205
	LIABILITIES		
2110	Accounts payable	$ 315,340	$ 2,748
2150	Payroll deductions and withholdings payable	1,418,747	-
2160	Accrued wages payable	7,110,009	-
2170	Due to other funds	227,213	-
2180	Due to other governments	38,588	288,028
2300	Unearned revenues	-	-
2000	Total liabilities	9,109,897	290,776
	DEFERRED INFLOWS OF RESOURCES		
2601	Unavailable revenue	1,137,223	183,278
2600	Total deferred inflows of resources	1,137,223	183,278
	FUND BALANCES		
	Nonspendable		
3410	Inventories	14,968	-
	Restricted		
3450	Federal or state funds grant restriction	-	-
3470	Capital acquisition and contractual obligation	-	-
3480	Retirement of long-term debt	-	3,981,151
	Committed		
3545	Other committed fund balance	-	-
3600	Unassigned	13,201,816	-
3000	Total fund balances	13,216,784	3,981,151
4000	**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES**	$ 23,463,904	$ 4,455,205

The Notes to the Basic Financial Statements are an integral part of this statement.

Exhibit C-1

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
$ 2,705,998	$ 1,615,828	$ 13,045,687
-	-	2,498,075
-	-	1,686,116
-	-	(614,434)
-	3,411,475	16,025,395
-	2,241	3,553
226,381	832	3,159,766
-	74,019	136,757
-	-	14,968
$ 2,932,379	$ 5,104,395	$ 35,955,883
$ 2,896,904	$ 110,673	$ 3,325,665
-	-	1,418,747
-	627,738	7,737,747
-	2,932,553	3,159,766
-	11,853	338,469
-	138,151	138,151
2,896,904	3,820,968	16,118,545
-	-	1,320,501
-	-	1,320,501
-	-	14,968
-	969,021	969,021
35,475	-	35,475
-	-	3,981,151
-	314,406	314,406
-	-	13,201,816
35,475	1,283,427	18,516,837
$ 2,932,379	$ 5,104,395	$ 35,955,883

DeSoto Independent School District

Exhibit C-2

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	$	18,516,837
The District uses an internal service fund 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 fund are included in governmental activities in the statement of net position.		105,171
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.		274,065,278
Accumulated depreciation is not reported in the fund financial statements.		(90,682,352)
Bonds and notes payable are not reported in the fund financial statements.		(140,463,808)
Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.		(68,572,673)
Property tax revenue recorded as unavailable revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.		1,320,501
Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.		(1,497,035)
Bond premiums are not recognized in the fund financial statements.		(8,612,397)
Compensated absences are not recognized in the fund financial statements.		(146,054)
Deferred charges on bond refundings are not recognized in the fund financial statements.		7,115,131
Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability in the amount of $19,502,787, deferred inflows of resources related to TRS in the amount of $2,982,824, and deferred outflows of resources related to TRS in the amount of $8,839,092. This results in a net decrease in net position.		(13,646,519)
Included in the items related to debt is the recognition of the District's proportionate share of the TRS-Care net OPEB liability ($33,854,377) and a deferred inflow of resources ($14,161,350) and a deferred outflow of resources ($435,521). This results in a net decrease in net position.		(47,580,206)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	$	(70,078,126)

The Notes to the Basic Financial Statements are an integral part of this statement.

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DeSoto Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

Data Control Codes		10 General Fund	50 Debt Service Fund
	REVENUES		
5700	Total local and intermediate sources	$ 32,982,974	$ 8,833,647
5800	State program revenues	53,657,881	2,182,865
5900	Federal program revenues	831,659	-
5020	Total revenues	87,472,514	11,016,512
	EXPENDITURES		
	Current		
0011	Instruction	49,513,199	-
0012	Instructional resources and media services	755,401	-
0013	Curriculum and instructional staff development	1,077,484	-
0021	Instructional leadership	2,489,260	-
0023	School leadership	5,868,742	-
0031	Guidance, counseling and evaluation services	3,609,519	-
0032	Social work services	343,245	-
0033	Health services	931,487	-
0034	Student (pupil) transportation	2,506,104	-
0035	Food services	56,240	-
0036	Extracurricular activities	2,829,335	-
0041	General administration	4,626,489	-
0051	Facilities maintenance and operations	8,361,748	-
0052	Security and monitoring services	678,872	-
0053	Data processing services	2,682,435	-
0061	Community Services	1,261,826	-
	Debt service		
0071	Principal on long term debt	460,000	10,500,000
0072	Interest on long term debt	84,450	3,923,906
0073	Bond issuance cost and fees	-	2,400
	Capital outlay		
0081	Facilities acquisition and construction	4,585,364	-
	Intergovernmental:		
0095	Payments to Juvenile Justice Alternative Education Program	9,612	-
0099	Other intergovernmental charges	132,847	-
6030	Total expenditures	92,863,659	14,426,306
	Excess (deficiency) of revenues		
1100	over (under) expenditures	(5,391,145)	(3,409,794)
1200	Net change in fund balances	(5,391,145)	(3,409,794)
100	Fund balance - beginning	18,607,929	7,390,945
3000	**FUND BALANCE - ENDING**	$ 13,216,784	$ 3,981,151

The Notes to the Basic Financial Statements are an integral part of this statement.

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
$ 238,508	$ 1,905,629	$ 43,960,758
-	1,132,168	56,972,914
-	15,092,630	15,924,289
238,508	18,130,427	116,857,961
-	5,164,195	54,677,394
-	-	755,401
-	522,164	1,599,648
-	2,176,695	4,665,955
-	15,547	5,884,289
-	829,317	4,438,836
88,417	95,963	527,625
-	-	931,487
-	-	2,506,104
-	7,040,955	7,097,195
-	718,184	3,547,519
200	51,491	4,678,180
-	-	8,361,748
-	-	678,872
-	2,622	2,685,057
-	1,699,077	2,960,903
-	-	10,960,000
-	-	4,008,356
-	-	2,400
27,362,483	-	31,947,847
-	-	9,612
-	-	132,847
27,451,100	18,316,210	153,057,275
(27,212,592)	(185,783)	(36,199,314)
(27,212,592)	(185,783)	(36,199,314)
27,248,067	1,469,210	54,716,151
$ 35,475	$ 1,283,427	$ 18,516,837

DeSoto Independent School District **Exhibit C-4**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$	(36,199,314)
The District uses an internal service fund to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income of the internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net position.		(117,443)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions increases government-wide net position.		32,676,987
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 in the government-wide financial statements.		(6,317,251)
Current year long-term debt principal payments on bonds payable, maintenance tax notes payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.		10,960,000
Current year interest accretion on capital appreciation bonds payable is not recorded in the fund financial statements, but is shown as an increase in accreted interest payable in the government-wide financial statements.		(6,612,480)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due. This amount represents the current year decrease in interest payable.		41,499
Revenues from property taxes are not recognized in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the government-wide financial statements.		149,658
Current year amortization of the premium/discount on bonds payable is not recorded in fund financial statements, but is shown as a decrease in long-term debt in the government-wide financial statements.		543,141
Current year amortization of the deferred charges on bond refundings is not recognized in the fund financial statements, but is shown as a decrease in deferred outflows of resources in the government-wide financial statements.		(412,268)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District

Exhibit C-4

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Continued
For the Fiscal Year Ended June 30, 2018

The increase in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	$	(146,054)
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows ($339,601); increase in deferred inflows ($1,850,106); and decrease in net pension liability ($142,820).		(1,367,685)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows ($101,052); increase in deferred inflows ($14,161,350); and decrease in net OPEB liability ($25,913,816).		11,853,518
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	$	5,052,308

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-1**

Statement of Net Position
Proprietary Funds
June 30, 2018

	Governmental Activities Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 198,139
Total assets	198,139
LIABILITIES	
Current liabilities	
Accounts payable	92,968
Total liabilities	92,968
NET POSITION	
Unrestricted net position	105,171
TOTAL NET POSITION	$ 105,171

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-2**

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
Local and intermediate sources	$ 457,040
Total operating revenues	457,040
OPERATING EXPENSES	
Other operating costs	574,483
Total operating expenses	574,483
Operating loss	(117,443)
Net position - beginning	222,614
NET POSITION - ENDING	$ 105,171

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit D-3**

Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from other funds	$ 457,040
Cash payments for insurance claims and costs	(508,353)
Net cash used in operating activities	(51,313)
Net decrease in cash and cash equivalents	(51,313)
Cash and cash equivalents at beginning of year	249,452
Cash and cash equivalents at end of year	$ 198,139
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	$ (117,443)
Effect of increases and decreases in current assets and liabilities	
Increase (decrease) in accounts payable	66,130
NET CASH USED IN OPERATING ACTIVITIES	$ (51,313)

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District

Exhibit E-1

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	$ 34,896	$ 97,322
Other receivables	-	19,246
TOTAL ASSETS	34,896	$ 116,568
LIABILITIES		
Accounts payable	-	$ 50
Due to student groups	-	116,518
TOTAL LIABILITIES	-	$ 116,568
NET POSITION		
Unrestricted net position	34,896	
TOTAL NET POSITION	$ 34,896	

The Notes to the Basic Financial Statements are an integral part of this statement.

DeSoto Independent School District **Exhibit E-2**

Statement of Changes in Fiduciary Fund Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018

	Private Purpose Trust Fund
ADDITIONS	
Local and intermediate sources	$ 357
Total additions	357
DEDUCTIONS	
Operating costs	1,800
Total deductions	1,800
Change in net position	(1,443)
Net position - beginning	36,339
NET POSITION - ENDING	$ 34,896

The Notes to the Basic Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

DeSoto Independent School District's (the District) combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. Reporting Entity

The Board of Trustees (the Board), a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (the Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental reporting entity and has no component units.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal service fund activity has been eliminated to avoid overstating revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities include programs primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. ***General Fund*** – This fund is the District's primary operating fund. It is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

2. ***Debt Service Fund*** – This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the general fund after all of the related debt obligations have been met.

3. ***Capital Projects Fund*** – This fund is established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. ***Special Revenue Funds*** – These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

2. ***Internal Service Fund*** – The District utilizes an internal service fund to account for revenues and expenses related to services provided to parties inside the District on a cost-reimbursement basis. This fund facilitates distribution of support costs to the users of support services. The District has an internal service fund for its self-insured workers compensation plan.

   The internal service fund is a proprietary fund type. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary fund includes the cost of personal and contractual services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. ***Private Purpose Trust Fund*** – The District accounts for donations which have the stipulation that the funds be used for a specific purpose in this fund. The District's private purpose trust fund is a scholarship fund. These funds are not budgeted.

4. ***Agency Funds*** – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. New Accounting Standards Adopted

In fiscal year 2018, the District adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which supersedes *GASB Statement No. 45.*

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions that are administered through trusts or equivalent arrangements, and to the financial statements of state and local government in which the non-employer contributing entity (State) and District have a legal obligation to make contributions directly to such OPEB plan. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The adoption of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. The calculation of OPEB contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2018 government-wide financial statements to reflect the reporting of net OPEB liability and deferred inflows of resources and deferred outflows of resources for its qualified OPEB plan and the recognition of OPEB expense in accordance with the provisions of the Statement. Net position as of July 1, 2017 was decreased by $59,433,724 to reflect the cumulative effect of adoption. An aggregate net OPEB liability of $59,768,193 offset by aggregate deferred outflows of resources of $334,469 at June 30, 2017 were reported as a prior period adjustment to the net position on July 1, 2017. Refer to Note 9 for more information regarding the District's OPEB plan.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by the Agency's *Financial Accountability System Resource Guide*.

E. Budgetary Control

Formal budgetary accounting is employed for all required governmental funds and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal period beginning September 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to cross fund, function, or increase the overall budget allocations. Control of appropriations by the Board is maintained within funds at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and the food service fund. The other special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

Appropriated budget funds - food service special revenue fund	$	966,741
Nonappropriated budget funds		316,686
All special revenue funds	$	1,283,427

F. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

G. Inventories

The consumption method is used to account for inventories of paper and other supplies. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.

H. Interfund Transactions

Short-term amounts owed between funds are classified as Due from and due to other funds. Interfund transfers arise from the need to move cash.

I. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at the acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of $5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Furniture and equipment	10 - 30 years

J. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Payment for unused vacation leave days accumulated locally will be made upon retirement or separation from the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The District does not have a liability for unpaid sick leave at year end because the District's policy does not allow payment for unused sick leave not taken upon retirement or termination.

K. Cash and Cash Equivalents

For purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid and have a maturity of three months or less when purchased.

L. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, less both accumulated depreciation and the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, excluding unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are recorded and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

O. 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. During fiscal 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

P. Estimates

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

Q. Pensions

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

R. Other Post-Employment Benefits

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

S. Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualify for reporting in this category:

1. **Deferred Outflows of Resources for Refunding Bonds** – reported in the government-wide statement of net position, deferred charges on refundings results from the difference in the carrying amount of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

2. **Deferred Outflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred outflows from the pension plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of pension liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.

3. **Deferred Outflows of Resources For OPEB** – reported in the government-wide statement of net position, the deferred outflows from the OPEB plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of OPEB liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

A deferred inflow of resources is an acquisition of net position that applies to a future period(s). The District has three items that qualify for reporting in this category:

1. **Deferred Inflows of Resources for Unavailable Revenue** – reported in the governmental funds balance sheet, unavailable revenue from property taxes arises from the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

2. **Deferred Inflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred inflows from the pension plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of pension liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.

3. **Deferred Inflows of Resources for OPEB** – reported in the government-wide statement of net position, the deferred inflows from the OPEB plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of OPEB liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

Note 2. Fund Balances

In the fund financial statements, the governmental funds present fund balance as follows:

- **Nonspendable**. This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories as being nonspendable as these items are not expected to be converted to cash.

- **Restricted**. This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committee.** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed resources for campus activity funds.

- **Assigned**. This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board may assign amounts for specific purposes. The District did not have any assigned fund balances as of June 30, 2018.

- **Unassigned**. This classification is the fund equity that is available for any legal purpose. The general fund is the only fund that will have a positive unassigned amount.

The order of spending and availability of fund balances is to reduce funds in the following order: restricted, committed, assigned, and finally unassigned funds

Note 3. Deposits and Investments

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

Cash Deposits
At June 30, 2018, the carrying amount of the District's deposit checking accounts and interest bearing demand accounts was $5,439,323 and the bank balance was $6,715,808. The District's cash deposits at June 30, 2018 and during the year ended June 30, 2018 were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

- Depository: Comerica Bank.
- The market value of securities pledged as of the date of the highest combined balance on deposit was $8,558,708.
- The highest combined balances of cash amounted to $6,715,807 and occurred on June 30, 2018.
- Total amount of FDIC coverage at the time of the highest combined balance was $250,000.

Investments
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 is in substantial compliance with the requirements of the Act and with local policies.

For fiscal year 2018, the District is invested in the following:

	Balance at June 30, 2018	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at							
Net asset value							
Texas Class	$ 4,525,758	$ -	$ -	$ -	44%	50 days	AAA/AAAm
TexasTERM	2,528,398	-	-	-	24%	35 days	AAA/AAAm
TexStar	815,653	-	-	-	8%	46 days	AAA/AAAm
Investments by fair value level							
U.S. Government Agency Securities							
Federal Home Loan Mortgage Corp.	2,498,075	2,498,075	-	-	24%	27 days	NR
Total value	$ 10,367,884	$ 2,498,075	$ -	$ -			

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

1. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

2. Level 2 inputs are inputs-other than quoted prices included within Level 1- that are observable for an asset or liability, either directly or indirectly.

3. Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investments in investment pools that are measured at net asset value are exempt from fair value reporting. All other investments are measured at fair value.

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. The Texas CLASS Trust Agreement (Trust) is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate (the Participants), MBIA Municipal Investors Service Corporation as Program Administrator (the Program Administrator) and Wells Fargo Bank Texas, NA as Custodian (the Custodian). Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian, and the Program Administrator. The Board administers the affairs of the Trust. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian.

The Board of Trustees has appointed an Advisory Board composed of Participants and other persons who do not have a business relationship with the Trust and are qualified to advise the Trust. The Advisory Board provides advice to the Board of Trustees and the Program Administrator about the investment policy and investment strategy of the Trust and about other matters as requested by the Board of Trustees and the Program Administrator. The Fund is rated AAA by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's.

Texas Short Term Asset Reserve Program (TexSTAR) is administered by J.P. Morgan Investment Management Inc. (JPMIM) and Hilltop Securities Inc. (HTS) under an agreement with the TexSTAR board of directors. JPMIM provides investment management services, and FirstSouthwest, a division of HTS, provides participant services and marketing. The fund is rated AAAm by Standard and Poor's Rating Service.

TexasTERM Local Government Investment Pool (TexasTERM) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (PFIA). TexasTERM offers a series of professionally managed portfolios that are available to municipalities, counties, school districts, special districts and other governmental entities in the State of Texas. An Advisory Board is responsible for the overall management of TexasTERM. With respect to TexasTERM, the Advisory Board's responsibilities include the formulation and implementation of its investment and operating policies. TexasTERM complies with statutory investment restrictions for Texas local governments as provided in the PFIA. The Investment Advisor and Administrator for TexasTERM is PFM Asset Management LLC.

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position		
Cash and cash equivalents	$	13,243,826
Fiduciary funds		
Cash and cash equivalents		132,218
Total cash and cash equivalents	$	13,376,044
Cash on hand	$	11,787
Deposits with financial institutions		5,439,323
Cash equivalents		7,924,934
Total cash and cash equivalents	$	13,376,044

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

1. **Credit Risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table on page 39 presents the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type held by the District.

2. **Custodial Credit Risk** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investments held by third parties were fully collateralized and held in the District's name

3. **Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The District's investments in public funds investment pools are not subject to the concentration risk.

4. **Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for each investment pool is less than 90 days. Additionally, all investments in bank certificates of deposit are covered by the District's depository pledge. The money market fund is also fully collateralized by pledged securities.

5. **Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2018, the District was not exposed to foreign currency risk.

Note 4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 7,668,315	$ 506,309	$ -	$ 8,174,624
Construction in progress	2,984,902	31,500,639	(5,094,849)	29,390,692
Total capital assets not being depreciated	10,653,217	32,006,948	(5,094,849)	37,565,316
Capital assets, being depreciated				
Buildings and improvements	219,215,295	45,400	5,094,849	224,355,544
Furniture and equipment	11,635,444	624,639	(115,665)	12,144,418
Total capital assets being depreciated	230,850,739	670,039	4,979,184	236,499,962
Less accumulated depreciation for				
Buildings and improvements	(77,812,843)	(5,355,117)	-	(83,167,960)
Furniture and equipment	(6,667,923)	(962,134)	115,665	(7,514,392)
Total accumulated depreciation	(84,480,766)	(6,317,251)	115,665	(90,682,352)
Total capital assets, being depreciated, net	146,369,973	(5,647,212)	5,094,849	145,817,610
Governmental activities capital assets, net	$ 157,023,190	$ 26,359,736	$ -	$ 183,382,926

Depreciation expense is charged as direct expense to programs of the District as follows:

Governmental activities		
Instruction	$	3,571,969
Instructional resources & media services		53,900
Curriculum & staff development		107,800
Instructional leadership		229,601
School leadership		377,301
Guidance, counseling & evaluation services		269,501
Social work services		1,947
Student transportation		53,900
Health services		173,140
Food services		240,462
Cocurricular/extracurricular activities		124,455
General administration		215,984
Plant maintenance and operations		254,685
Security & monitoring services		199,250
Data processing services		389,456
Community services		53,900
Total depreciation expense - governmental activities	$	6,317,251

Construction Commitments

The District had an active construction project as of June 30, 2018. The project included an elementary school construction as well as street construction to the surrounding area. Fiscal year 2018 expenses and estimated future expenditures for capital projects are funded from bond proceeds and a note payable. The following summarizes the projects in process at year end:

Project	Estimated Total Cost	Expenditures Incurred to 6/30/2018	Estimated Future Expenditures
Katharine Johnson Academy Elementary School	$ 25,346,269	$ 23,697,777	$ 1,648,492
Total ongoing construction	$ 25,346,269	$ 23,697,777	$ 1,648,492

Note 5. Long-Term Debt

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes, and notes payable. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

The following is a summary of the changes in the District's long-term debt for the fiscal year ended June 30, 2018:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding July 1, 2017	Issued Current Year	Retired/ Refunded	Amounts Outstanding June 30, 2018	Due Within One Year
Bonded indebtedness							
1995 School Building and Refunding Bonds	5.60-6.75%	$ 27,022,385	$ 790,000	$ -	$ 135,000	$ 655,000	$ 130,000
2001 School Building and Refunding Bonds	4.00-5.92%	15,768,251	1,501,921	-	302,955	1,198,966	447,724
2006 School Building and Refunding Bonds	3.75-5.28%	64,851,130	513,106	-	-	513,106	-
2007 School Building and Refunding Bonds	3.80-4.50%	36,123,829	-	-	-	-	-
2010A Refunding Bonds	0.74-4.84%	8,491,469	3,481,469	-	-	3,481,469	-
2010B Refunding Bonds	0.85-4.06%	31,994,992	27,070,000	-	1,595,000	25,475,000	1,235,000
2012 Refunding Bonds	1.08-2.32%	4,995,925	4,995,925	-	475,000	4,520,925	600,321
2013 Refunding Bonds	2.00-4.41%	37,262,193	33,632,193	-	2,075,000	31,557,193	2,040,000
2015A Refunding Bonds	2.00-5.00%	7,640,000	6,190,000	-	1,465,000	4,725,000	1,505,000
2015B Refunding Bonds	3.00-5.00%	28,400,000	28,400,000	-	1,235,000	27,165,000	490,000
2016A Refunding Bonds	2.00-5.00%	1,110,000	1,110,000	-	55,000	1,055,000	30,000
2016B Refunding Bonds	2.00-5.00%	26,750,000	26,750,000	-	-	26,750,000	-
Total bonded indebtedness			134,434,614	-	7,337,955	127,096,659	6,478,045
Accreted interest - Capital appreciation bonds			65,122,238	6,612,480	3,162,045	68,572,673	4,095,289
Bond premiums			9,155,538	-	543,141	8,612,397	-
Maintenance Tax Notes Series 2014			8,675,000	-	460,000	8,215,000	470,000
Note payable			5,152,149	-	-	5,152,149	234,848
Net pension liability			19,645,607	5,535,840	5,678,660	19,502,787	-
Net OPEB liability			59,768,193	5,729	25,919,545	33,854,377	-
Compensated absences			-	146,054	-	146,054	-
Total other obligations			167,518,725	12,300,103	35,763,391	144,055,437	4,800,137
Total obligations of District			$ 301,953,339	$ 12,300,103	$ 43,101,346	$ 271,152,096	$ 11,278,182

Presented below is a summary of general obligation bond requirements to maturity:

Years Ending June 30,	General Obligation Bonds Principal	Interest	Total Requirements
2019	$ 6,478,045	$ 3,726,731	$ 10,204,776
2020	6,582,551	3,523,369	10,105,920
2021	6,550,914	3,333,806	9,884,720
2022	5,819,635	3,206,731	9,026,366
2023	5,630,879	3,118,456	8,749,335
2024 - 2028	25,071,398	14,046,455	39,117,853
2029 - 2033	31,302,630	10,115,855	41,418,485
2034 - 2038	32,445,601	4,302,663	36,748,264
2039 - 2042	7,215,006	167,388	7,382,394
Totals	$ 127,096,659	$ 45,541,454	$ 172,638,113

The 1995, 2001, 2006, 2010A, 2012 and 2013 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature variously through 2040. Interest accrues on these bonds semi-annually even though the interest is not paid until maturity.

General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General obligation bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement. There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2018.

In addition, DeSoto Independent School District Limited Maintenance Tax Notes, Tax Credit 2014 were issued by the District on November 20, 2014, with an interest rate of 1.0%. Debt service payments for the notes will be paid from the general fund. The payment requirements are as follows:

Years Ending	Maintenance Tax Notes		Total
June 30,	Principal	Interest	Requirements
2019	$ 470,000	$ 79,800	$ 549,800
2020	480,000	75,050	555,050
2021	490,000	70,200	560,200
2022	500,000	65,250	565,250
2023	510,000	60,200	570,200
2024 - 2028	2,730,000	221,100	2,951,100
2029 - 2033	3,035,000	77,225	3,112,225
Totals	$ 8,215,000	$ 648,825	$ 8,863,825

The maintenance tax notes were issued under the federal Qualified Zone Academy Bond (QZAB) program. Under this program, proceeds must be used for specified programs and costs.

Lastly, on June 28, 2017, the District entered into a Note Payable with Government Capital Corporation in order to purchase HVAC mechanical retrofits and energy management controls to be installed at District facilities. The property cost was $5,094,849 plus an additional $57,300 in issuance costs, which rolled into the cost of the loan. The total note was $5,152,149 and is seen as an addition on the long-term debt rollforward. The note requires a total payment of $433,532 over 15 periods, maturing on October 15, 2032. The first payment will be made on October 15, 2018. Debt service payments for the note will be paid from the general fund. The payment requirements are as follows:

Years Ending	Note Payable		Total
June 30,	Principal	Interest	Requirements
2019	$ 234,848	$ 198,684	$ 433,532
2020	288,964	144,569	433,533
2021	297,459	136,073	433,532
2022	306,204	127,328	433,532
2023	315,207	118,325	433,532
2024 - 2028	1,720,611	447,050	2,167,661
2029 - 2033	1,988,856	178,804	2,167,660
Totals	$ 5,152,149	$ 1,350,833	$ 6,502,982

Note 6. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2017-18 fiscal period was based was $2,793,082,299. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the period ended June 30, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were $1.17 and $0.32 per $100 valuation, respectively, for a total of $1.49 per $100 valuation.

Current tax collections for the period ended June 30, 2018 were 98.51% of the June 30, 2018 adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written of, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled $852,391 and $219,291 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

Note 7. Interfund Balances and Activities

Interfund receivables and payables at June 30, 2018 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from June 30, 2018.

Payable Fund	Receivable Fund	Amount	Primary Purpose
General fund	Capital projects fund	$ 226,381	To cover cash shortage
Nonmajor governmental funds	General fund	2,932,553	To cover cash shortage
General fund	Nonmajor governmental funds	832	To cover cash shortage
		$ 3,159,766	

Note 8. Defined Benefit Pension Plan

A. 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.

B. Pension Plan Fiduciary Net Position

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

C. 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 five 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 five 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.

D. Contributions

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

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

	2016	2017	2018
Member	7.2%	7.7%	7.7%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contributions amount for the District's fiscal year 2018 are as follows:

Employer contributions	$	1,999,047
Member contributions		1,977,784
NECE on-behalf contributions		2,896,500

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

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

1. 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.

2. During a new member's first 90 days of employment.

3. When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

4. When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

1. 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.

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

E. Actuarial Assumptions

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

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases including inflation	3.50% to 9.50%
Ad hoc post-employment benefit changes	None

* If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement Date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

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

Discount Rate

The single 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 8.0%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	(0.2%)	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha	0.0%		1.0%
Total	100%		8.7%

*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

F. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the net pension liability.

	1% Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1% Increase In Discount Rate (9.00%)
District's proportionate share of the net pension liability	$ 32,877,845	$ 19,502,787	$ 8,365,880

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

At June 30, 2018, the District reported a liability of $19,502,787 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$	19,502,787
State's proportionate share that is associated with the District		28,317,789
	$	47,820,576

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0609946% an increase of 17% from its proportionate share of 0. 0.0519883% at August 31, 2016.

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

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

For the fiscal year ended June 30, 2018, the District recognized pension expense of $3,527,653 and revenue of $2,159,968 for support provided by the State.

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	$	285,335	$	(1,051,760)
Changes in actuarial assumptions		888,383		(508,578)
Difference between projected and actual investment earnings		-		(1,421,321)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions		6,137,644		(1,165)
Contributions paid to TRS subsequent to the measurement date		1,527,730		-
	$	8,839,092	$	(2,982,824)

$1,527,730 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,		Pension Expense Amount
2019	$	667,039
2020		1,911,953
2021		571,385
2022		214,933
2023		632,197
Thereafter		331,031
Total	$	4,328,538

Note 9. Defined Other Post-Employment Benefit Plan

Plan Description

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

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

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

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

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

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	$ -	$ 70	$ 100
Retiree and spouse	20	175	255
Retiree* and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

* or surviving spouse

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

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

	2018	2017
Active employee	0.65%	0.65%
Non-employer contribution entity (state)	1.25%	1.00%
Employers/District	0.75%	0.55%
Federal/private funding remitted by employers	1.25%	1.00%

The contribution amounts for the District's fiscal year 2018 are as follows:

District contributions	$	404,747
Member contributions		166,010
NECE on-behalf contributions (state)		569,307

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of $15.6 million in fiscal year 2017 and $212 million in fiscal year 2018.

Actuarial Assumptions

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

Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Expected payroll growth

Additional Actuarial Methods and Assumptions:	
Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Inflation	2.50%
Discount rate*	3.42%*
Aging factors	Based on plan specific experience
Expenses	third-party administrative expenses related to the delivery of health care benefits are included in the age- adjusted claims costs.
Payroll growth rate	2.50%
Projected salary increases**	3.50% to 9.50%**
Healthcare trend rates***	4.50% to 12.00%***
Election Rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

***Source**: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.

**Includes inflation at 2.50%

***Initial trend rates are 7.00% for non-Medicare retiree; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of ten years.

Discount Rate

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

Sensitivity of the Net OPEB Liability

Discount Rate
The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the net OPEB liability.

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

1% Decrease (2.42%)	Current Discount Rate (3.42%)	1% Increase (4.42%)
$ 39,956,570	$ 33,854,377	$ 28,949,591

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

Sensitivity of the Net OPEB Liability to
the Healthcare Cost Trend Rate Assumptions

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
$ 28,187,151	$ 33,854,377	$ 41,290,492

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEBs
At June 30, 2018, the District reported a liability of $33,854,377 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	$ 33,854,377
State's proportionate share of the net OPEB liability associated with the District	47,618,752
Total	$ 81,473,129

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

At August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.0778508% which was the same proportion measured as of August 31, 2016.

Changes since the Prior Actuarial Valuation
The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period.

1. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.

2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.

3. The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of the collective OPEB expense that is allocated to the District and record revenue in the same amount for the support provided for the State. For the measurement period ended August 31, 2017, the State's proportionate share of the collective OPEB expense was a negative expense of $8,504,163,580 and the District's proportionate share is a negative $15,934,501. The amount is recorded as a negative revenue and negative expense for the District's year ended June 30, 2018.

For the year ended June 30, 2018, the District recognized total negative OPEB expense of ($27,788,019), which includes both the District's proportionate share of the collective OPEB expense and the State's proportionate share of the collective OPEB expense that is allocated to the District as described above.

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ (706,736)
Changes of assumptions	-	(13,454,614)
Net difference between projected and actual earnings on pension plan investments	5,143	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	156	-
District contributions after measurement date	430,222	-
Totals	$ 435,521	$ (14,161,350)

$430,222 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	$	(1,867,907)
2020		(1,867,907)
2021		(1,867,907)
2022		(1,867,907)
2023		(1,869,193)
Thereafter		(4,815,230)
Total	$	(14,156,051)

Note 10. Health Care

During the period ended June 30, 2018, employees of the District were covered by a health insurance plan (the Plan). The District contributed $351 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan.

Note 11. Workers Compensation

The District participates in the Workers Compensation Solutions Workers Compensation Self-Insurance Joint Fund. Workers Compensation Solutions has performed an evaluation of claims submitted for incidents occurring prior to June 30, 2018, and has projected open claims and incurred but not reported claims will cost $92,968.

Edwards Risk Management, Inc. provides claims administration. Reinsurance is provided for individual claim losses exceeding $450,000 and aggregate losses exceeding $2,000,000 for the entire pool. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

Changes in workers compensation claims liability amounts for the last three fiscal years are represented below:

Fiscal Year	Beginning of Period Claims Liability	Claims and Changes in Estimates	Claims Payments	End of Period Claims Liability
2018	$ 26,838	$ 421,058	$ 354,928	$ 92,968
2017	174,181	353,422	500,765	26,838
2016	196,779	319,945	342,543	174,181

Note 12. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, Per Capita, Existing Debt Allotment, and Instruction Facilities Allotment Programs. Amounts due from federal and state governments as of June 30, 2018, are summarized below. All federal grants shown below are passed through the Agency and are reported as due from other governments.

Fund	State Entitlements	Federal Government	Local Governments	Total
General	$ 12,194,132	$ 418,600	$ -	$ 12,612,732
Special revenue	156,428	3,255,047	-	3,411,475
Debt service	1,188	-	-	1,188
Total	$ 12,351,748	$ 3,673,647	$ -	$ 16,025,395

Note 13. Litigation and Contingencies

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

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceed investments that exceed bond issue stated interest rates. The formula is based on a five year history, therefore the exact amount of liability, if any, is unknown until five years from the bond issuance date. This calculation yielded no known material rebate liability as of June 30, 2018.

Note 14. Revenues from Local and Intermediate Sources

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

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property taxes	$ 31,691,771	$ -	$ 8,681,818	$ -	$ 40,373,589
Food sales	-	1,110,479	-	-	1,110,479
Investment income	165,319	15,058	81,175	238,508	500,060
Penalties, interest and other tax related income	227,463	-	70,252	-	297,715
Co-curricular student activities	226,841	250,954	-	-	477,795
Other	671,580	529,138	402	-	1,201,120
Total	$ 32,982,974	$ 1,905,629	$ 8,833,647	$ 238,508	$ 43,960,758

Note 15. Unearned and Unavailable Revenue

Unearned and unavailable revenue reported in the governmental funds at June 30, 2018 consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net tax unavailable revenue	$ 727,129	$ -	$ 183,278	$ 910,407
SHARS unavailable revenue	410,094	-	-	410,094
Total unavailable revenue	$ 1,137,223	$ -	$ 183,278	$ 1,320,501
Other unearned revenue	$ -	$ 138,151	$ -	$ 138,151
Total unearned revenue	$ -	$ 138,151	$ -	$ 138,151

Revenue that is not considered available at year end is reported as a deferred inflow of resources in the governmental funds and is recorded as revenue in the government-wide financial statements. Accordingly, tax and SHARS revenues are reported as revenue in the government-wide financial statements.

Note 16. Excess of Expenditures over Appropriations by Function

The Texas Education Agency (the Agency) requires the budgets for certain governmental funds to be filed with the Agency. The budget should not be exceeded in any functional category under the Agency's requirements. Expenditures exceeded appropriations in four functional categories in the general fund and one functional category in the food service fund for the fiscal year ended June 30, 2018.

Note 17. Prior Period Adjustment

Net position at July 1, 2017 was restated per the following table for the implementation of GASB 75:

	Governmental Activities
Beginning net position, as previously reported	$ (15,696,710)
Implementation of GASB 75 for OPEB	(59,433,724)
Beginning net position, restated	$ (75,130,434)

Note 18. Nonmonetary Transactions

During 2018, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $652,673. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of $652,673 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas

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Required Supplementary Information

DeSoto Independent School District

Exhibit G-1

Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive or (Negative)
	REVENUES				
5700	Local and intermediate sources	$ 33,203,204	$ 32,929,339	$ 32,982,974	$ 53,635
5800	State program revenues	54,377,212	53,719,969	53,657,881	(62,088)
5900	Federal program revenues	925,000	925,000	831,659	(93,341)
5020	Total revenues	88,505,416	87,574,308	87,472,514	(101,794)
	EXPENDITURES				
	Current				
0011	Instruction	49,583,662	50,188,799	49,513,199	675,600
0012	Instructional resources and media services	848,535	848,535	755,401	93,134
0013	Curriculum and instructional staff development	1,443,886	1,550,070	1,077,484	472,586
0021	Instructional leadership	2,695,313	2,609,263	2,489,260	120,003
0023	School leadership	5,750,936	5,853,398	5,868,742	(15,344)
0031	Guidance, counseling and evaluation services	4,243,304	3,639,815	3,609,519	30,296
0032	Social work services	350,787	433,787	343,245	90,542
0033	Health services	942,869	949,876	931,487	18,389
0034	Student (pupil) transportation	2,347,096	2,557,096	2,506,104	50,992
0035	Food services	-	-	56,240	(56,240)
0036	Extracurricular activities	2,779,424	2,921,848	2,829,335	92,513
0041	General administration	4,050,867	4,405,979	4,626,489	(220,510)
0051	Facilities maintenance and operations	8,340,030	8,654,685	8,361,748	292,937
0052	Security and monitoring services	763,174	767,155	678,872	88,283
0053	Data processing services	2,653,004	2,934,704	2,682,435	252,269
0061	Community services	698,870	889,757	1,261,826	(372,069)
	Debt service				-
0071	Principal on long-term debt	460,000	460,000	460,000	-
0072	Interest on long-term debt	84,450	84,450	84,450	-
	Capital outlay				
0081	Facilities acquisition and construction	-	5,094,849	4,585,364	509,485
	Intergovernmental				
0095	Payments to Juvenile Justice Alternative Education Program	35,000	35,000	9,612	25,388
0099	Other intergovernmental charges	127,000	132,847	132,847	-
	Total expenditures	88,198,207	95,011,913	92,863,659	2,148,254
1100	Excess (deficiency) of revenues over (under) expenditures	307,209	(7,437,605)	(5,391,145)	2,046,460
1200	Net change in fund balances	307,209	(7,437,605)	(5,391,145)	2,046,460
0100	Fund balance - beginning	18,607,929	18,607,929	18,607,929	-
3000	**FUND BALANCE - ENDING**	$ 18,915,138	$ 11,170,324	$ 13,216,784	$ 2,046,460

The Notes to the Required Supplementary Information are an integral part of this schedule.

DeSoto Independent School District

Exhibit G-2

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan
Teacher Retirement System of Texas
For the Last Four Fiscal Years

	2018	2017	2016	2015
District's proportion of the net pension liability	0.0609946%	0.0519883%	0.0498181%	0.0336442%
District's proportionate share of net pension liability	$ 19,502,787	$ 19,645,607	$ 17,610,035	$ 8,986,830
State's proportionate share of the net pension liability associated with the District	28,317,789	33,950,679	31,354,989	25,809,819
TOTALS	$ 47,820,576	$ 53,596,286	$ 48,965,024	$ 34,796,649
District's covered payroll	$ 60,949,899	$ 55,996,281	$ 51,070,870	$ 47,685,980
District's proportionate share of the net pension liability as a percentage of its covered payroll	32.00%	35.08%	34.48%	18.85%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2017 - the period from September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

DeSoto Independent School District

Exhibit G-3

Schedule of the District's Contributions to the Teacher Retirement System of Texas Pension Plan
For the Last Four Fiscal Years

	2018	2017	2016	2015
TRS				
Contractually required contribution	$ 1,863,057	$ 1,255,991	$ 1,622,610	$ 1,342,111
Contributions in relation to contractually required contribution	(1,863,057)	(1,255,991)	(1,622,610)	(1,342,111)
CONTRIBUTIONS DEFICIENCY (EXCESS)	$ -	$ -	$ -	$ -
District's covered payroll	$ 59,288,941	$ 60,392,297	$ 54,874,390	$ 49,824,480
Contributions as a percentage of covered payroll	3.14%	2.08%	2.96%	2.69%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

DeSoto Independent School District

Exhibit G-4

Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan
Teacher Retirement System of Texas
Last Fiscal Year

		2018
District's proportion of the net OPEB liability		0.0778508%
District's proportionate share of net OPEB liability	$	33,854,377
State's proportionate share of the net OPEB liability associated with the District		47,618,752
TOTALS	$	81,473,129
District's covered payroll	$	60,949,899
District's proportionate share of the net OPEB liability as a percentage of its covered payroll		55.54%
Plan fiduciary net position as a percentage of the total OPEB liability		0.91%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2017 through the period from September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

DeSoto Independent School District

Exhibit G-5

Schedule of the District's Contributions to the
Teacher Retirement System of Texas OPEB Plan
Last Fiscal Year

		2018
TRS		
Contractually required contribution	$	499,063
Contributions in relation to contractually required contribution		(499,063)
CONTRIBUTIONS DEFICIENCY (EXCESS)	$	-
District's covered payroll	$	59,288,941
Contributions as a percentage of covered payroll		0.84%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

The Notes to the Required Supplementary Information are an integral part of this schedule.

Note 1. Budgetary Data

A. Budgetary Information

The official budget was prepared for adoption for the general, child nutrition, and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1.

2. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.

3. Prior to the expenditures of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the functional level by personnel responsible for the organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the functions:

Fund	Function	Final Budget	Actual	Variance
General fund	School leadership	$ 5,853,398	$ 5,868,742	$ (15,344)
General fund	Food services	-	56,240	(56,240)
General fund	General administration	4,405,979	4,626,489	(220,510)
General fund	Community services	889,757	1,261,826	(372,069)

Function 23 - The District's variance is due to payroll exceeding the budget for the anticipated opening of the new elementary school in August 2018.

Function 35 - The District's variance is due to the reimbursement to the Food Service Fund for meal charges by students that were unpaid at the end of the year and had not been budgeted.

Function 41 – The District's variance is due to outside legal service billings that were not received in a timely fashion to amend the budget prior to the end of the fiscal year.

Function 61 – The District's variance is due to a reclassification of expenditures, the majority of which are payroll related, for a federal grant that was overspent during the grant year and had to be reclassified when discovered by the District after the close of the fiscal year.

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Combining Schedules

DeSoto Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
	ASSETS					
1110	Cash and cash equivalents	$ -	$ -	$ -	$ -	$ 2,786
1240	Due from other governments	82,664	695,286	528,695	31,684	-
1250	Accrued interest	-	-	-	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	387	-	-	-
1000	**TOTAL ASSETS**	$ 82,664	$ 695,673	$ 528,695	$ 31,684	$ 2,786
	LIABILITIES					
2110	Accounts payable	$ 112	$ 11,447	$ 977	$ -	$ -
2160	Accrued wages payable	-	89,693	258,492	3,174	-
2170	Due to other funds	82,552	594,533	269,226	28,510	-
2180	Due to other governments	-	-	-	-	2,786
2300	Unearned revenues	-	-	-	-	-
2000	Total liabilities	82,664	695,673	528,695	31,684	2,786
	FUND BALANCES					
	Restricted					
3450	Federal or state funds grant restriction	-	-	-	-	-
	Committed					
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	-	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 82,664	$ 695,673	$ 528,695	$ 31,684	$ 2,786

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
$ 1,058,690	$ -	$ -	$ -	$ -	$ 153,957	$ -
-	2,729	87,621	22,539	654,185	-	412,368
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,790	-	-	-	70,317	-	82
$ 1,060,480	$ 2,729	$ 87,621	$ 22,539	$ 724,502	$ 153,957	$ 412,450
$ 40,825	$ -	$ -	$ -	$ 8,885	$ 38,196	$ 6,664
11,305	-	28,150	-	13,776	26,934	27,164
41,609	2,729	59,471	22,539	701,841	841	378,622
-	-	-	-	-	-	-
-	-	-	-	-	87,986	-
93,739	2,729	87,621	22,539	724,502	153,957	412,450
966,741	-	-	-	-	-	-
-	-	-	-	-	-	-
966,741	-	-	-	-	-	-
$ 1,060,480	$ 2,729	$ 87,621	$ 22,539	$ 724,502	$ 153,957	$ 412,450

DeSoto Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds – Continued
June 30, 2018

Data Control Codes		289 Other Federal Grants	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund
	ASSETS					
1110	Cash and cash equivalents	$ 8,529	$ -	$ 977	$ 8,130	$ -
1240	Due from other governments	82,441	516,742	-	-	156,428
1250	Accrued interest	-	-	-	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	-	-	-	-
1000	**TOTAL ASSETS**	$ 90,970	$ 516,742	$ 977	$ 8,130	$ 156,428
	LIABILITIES					
2110	Accounts payable	$ -	$ 1,841	$ -	$ -	$ -
2160	Accrued wages payable	565	97,308	-	-	-
2170	Due to other funds	81,876	417,593	-	-	156,428
2180	Due to other governments	6,199	-	-	-	-
2300	Unearned revenues	2,330	-	977	5,850	-
2000	Total liabilities	90,970	516,742	977	5,850	156,428
	FUND BALANCES					
	Restricted					
3450	Federal or state funds grant restriction	-	-	-	2,280	-
	Committed					
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	2,280	-
4000	**TOTAL LIABILITIES AND FUND BALANCES**	$ 90,970	$ 516,742	$ 977	$ 8,130	$ 156,428

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Nonmajor Governmental Funds
$ 32,468	$ 325,811	$ 5,077	$ 3,324	$ 16,079	$ 1,615,828
138,093	-	-	-	-	3,411,475
-	2,241	-	-	-	2,241
-	832	-	-	-	832
-	1,443	-	-	-	74,019
$ 170,561	$ 330,327	$ 5,077	$ 3,324	$ 16,079	$ 5,104,395
$ -	$ 1,726	$ -	$ -	$ -	$ 110,673
71,177	-	-	-	-	627,738
82,750	11,433	-	-	-	2,932,553
106	2,762	-	-	-	11,853
16,528	-	5,077	3,324	16,079	138,151
170,561	15,921	5,077	3,324	16,079	3,820,968
-	-	-	-	-	969,021
-	314,406	-	-	-	314,406
-	314,406	-	-	-	1,283,427
$ 170,561	$ 330,327	$ 5,077	$ 3,324	$ 16,079	$ 5,104,395

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
	REVENUES					
5700	Local and intermediate sources	$ -	$ -	$ -	$ -	$ -
5800	State program revenues	-	-	-	-	-
5900	Federal program revenues	304,375	1,950,127	1,836,417	26,529	72,080
5020	Total revenues	304,375	1,950,127	1,836,417	26,529	72,080
	EXPENDITURES					
	Current					
0011	Instruction	205,311	1,647,437	1,068,968	26,529	72,080
0013	Curriculum and instructional staff development	13,000	122,562	-	-	-
0021	Instructional leadership	24,877	167,021	12,635	-	-
0023	School leadership	-	2,570	-	-	-
0031	Guidance, counseling and evaluation services	166	-	754,814	-	-
0032	Social work services	44,181	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	8,005	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	8,835	10,537	-	-	-
6030	Total expenditures	304,375	1,950,127	1,836,417	26,529	72,080
1200	Net change in fund balance	-	-	-	-	-
0100	Fund balance - beginning	-	-	-	-	-
4000	**FUND BALANCE - ENDING**	$ -	$ -	$ -	$ -	$ -

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
$ 1,125,537	$ -	$ -	$ -	$ -	$ -	$ -
130,828	-	-	-	-	-	-
5,561,744	82,026	185,535	40,950	1,227,172	1,229,986	855,410
6,818,109	82,026	185,535	40,950	1,227,172	1,229,986	855,410
-	82,026	-	29,873	220,340	627,246	220,638
-	-	185,535	10,725	138,159	-	7,835
-	-	-	-	845,051	586,030	513,046
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
7,040,955	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	21,000	16,670	5,816
-	-	-	-	2,622	-	-
-	-	-	352	-	40	108,075
7,040,955	82,026	185,535	40,950	1,227,172	1,229,986	855,410
(222,846)	-	-	-	-	-	-
1,189,587	-	-	-	-	-	-
$ 966,741	$ -	$ -	$ -	$ -	$ -	$ -

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and
Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

Data Control Codes		289 Summer School LEP	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund
	REVENUES					
5700	Local and intermediate sources	$ -	$ -	$ -	$ -	$ -
5800	State program revenues	-	-	-	2,280	652,673
5900	Federal program revenues	152,609	1,567,670	-	-	-
5020	Total revenues	152,609	1,567,670	-	2,280	652,673
	EXPENDITURES					
	Current					
0011	Instruction	123,684	-	-	-	652,673
0013	Curriculum and instructional staff development	15,948	-	-	-	-
0021	Instructional leadership	-	-	-	-	-
0023	School leadership	12,977	-	-	-	-
0031	Guidance, counseling and evaluation services	-	-	-	-	-
0032	Social work services	-	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	-	1,567,670	-	-	-
6030	Total expenditures	152,609	1,567,670	-	-	652,673
1200	Net change in fund balance	-	-	-	2,280	-
0100	Fund balance - beginning	-	-	-	-	-
4000	**FUND BALANCE - ENDING**	$ -	$ -	$ -	$ 2,280	$ -

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Non-Major Governmental Funds
$ 27,125	$ 752,967	$ -	$ -	$ -	$ 1,905,629
342,178	-	-	-	4,209	1,132,168
-	-	-	-	-	15,092,630
369,303	752,967	-	-	4,209	18,130,427
183,181	-	-	-	4,209	5,164,195
28,400	-	-	-	-	522,164
28,035	-	-	-	-	2,176,695
-	-	-	-	-	15,547
74,337	-	-	-	-	829,317
51,782	-	-	-	-	95,963
-	-	-	-	-	7,040,955
-	718,184	-	-	-	718,184
-	-	-	-	-	51,491
-	-	-	-	-	2,622
3,568	-	-	-	-	1,699,077
369,303	718,184	-	-	4,209	18,316,210
-	34,783	-	-	-	(185,783)
-	279,623	-	-	-	1,469,210
$ -	$ 314,406	$ -	$ -	$ -	$ 1,283,427

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Required T.E.A. Schedules

DeSoto Independent School District

Schedule of Revenues, Expenditures and Changes in Fund Balance
Schedule of Delinquent Taxes Receivable
For the Fiscal Year Ended June 30, 2018

	(1)	(2)	(3)
	Tax Rates		Assessed/ Appraised Value
Last Ten Years	**Maintenance**	**Debt Service**	**for School Tax Purposes**
2009 and prior years	Various	Various	Combined 2009 and prior
2010	1.040000	0.470000	2,233,596,072
2011	1.040000	0.450000	2,105,349,551
2012	1.040000	0.400000	2,096,688,182
2013	1.040000	0.400000	2,066,718,966
2014	1.040000	0.450000	2,093,189,363
2015	1.040000	0.430000	2,216,234,188
2016	1.170000	0.290000	2,382,114,141
2017	1.170000	0.290000	2,541,291,208
2018 School year under audit	1.170000	0.320000	2,793,082,299
1000 TOTALS			

Exhibit J-1

(10) Beginning Balance July 1, 2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance June 30, 2018
$ 314,218	$ -	$ 43,924	$ 13,626	$ (18,682)	$ 237,986
60,659	-	7,635	3,304	(2,248)	47,472
61,303	-	8,424	3,645	(653)	48,581
70,556	-	12,277	4,722	(773)	52,784
108,830	-	20,476	7,875	(3,986)	76,493
123,490	-	26,975	11,672	6,582	91,425
181,598	-	38,654	15,982	(1,692)	125,270
231,123	-	62,807	15,568	2,391	155,139
581,294	-	120,142	29,779	(184,748)	246,625
-	40,346,332	31,339,110	8,571,379	168,498	604,341
$ 1,733,071	$ 40,346,332	$ 31,680,424	$ 8,677,552	$ (35,311)	$ 1,686,116

DeSoto Independent School District

Exhibit J-2

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budgetary Comparison Schedule – Child Nutrition Program
For the Fiscal Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
	REVENUES				
5700	Total local and intermediate sources	$ 1,207,500	$ 1,070,901	$ 1,125,537	$ 54,636
5800	State program revenues	35,000	130,828	130,828	-
5900	Federal program revenues	5,131,357	5,258,076	5,561,744	303,668
5020	Total revenues	6,373,857	6,459,805	6,818,109	358,304
	EXPENDITURES				
0035	Food services	6,873,857	6,792,515	7,040,955	(248,440)
6030	Total expenditures	6,873,857	6,792,515	7,040,955	(248,440)
1200	Net change in fund balance	(500,000)	(332,710)	(222,846)	109,864
0100	Fund balance - beginning	1,189,587	1,189,587	1,189,587	-
3000	**FUND BALANCE - ENDING**	$ 689,587	$ 856,877	$ 966,741	$ 109,864

DeSoto Independent School District **Exhibit J-3**

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Comparison Schedule – Debt Service Fund
For the Fiscal Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
	REVENUES				
5700	Total local and intermediate sources	$ 8,942,744	$ 8,773,256	$ 8,833,647	$ 60,391
5800	State program revenues	2,539,896	2,185,108	2,182,865	(2,243)
5020	Total revenues	11,482,640	10,958,364	11,016,512	58,148
	EXPENDITURES				
	Debt service				
0071	Principal on long term debt	10,500,000	10,500,000	10,500,000	-
0072	Interest on long term debt	3,919,906	3,923,906	3,923,906	-
0073	Bond issuance cost and fees	4,000	2,400	2,400	-
6030	Total expenditures	14,423,906	14,426,306	14,426,306	-
1100	Excess (deficiency) of revenues over (under) expenditures	(2,941,266)	(3,467,942)	(3,409,794)	58,148
1200	Net change in fund balance	(2,941,266)	(3,467,942)	(3,409,794)	58,148
0100	Fund balance - beginning	7,390,945	7,390,945	7,390,945	-
3000	**FUND BALANCE - ENDING**	$ 4,449,679	$ 3,923,003	$ 3,981,151	$ 58,148

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Federal Awards Section

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
DeSoto Independent School District

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto Independent School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2018-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, 2018-002 and 2018-003.

Weaver and Tidwell, L.L.P.
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Main: 972.490.1970 | Fax:972.702.8321
CPAs AND ADVISORS | WEAVER.COM

The Board of Trustees
DeSoto Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-004.

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

Austin | Conroe | Dallas | Fort Worth | Houston
Los Angeles | Midland | New York City | San Antonio

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees
DeSoto Independent School District DeSoto, Texas

Report on Compliance for Each Major Federal Program

We have audited DeSoto Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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CPAs AND ADVISORS | WEAVER.COM

The Board of Trustees
DeSoto Independent School District

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-005, which we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weaver and Tidwell, L.L.P.
WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

DeSoto Independent School District
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	X	Yes		No
Significant deficiencies identified that are not considered to be material weakness(es)?	X	Yes		None reported
Noncompliance material to financial statements noted?	X	Yes		No

Federal and State Awards

Internal control over major programs:

Material weakness(es) identified?		Yes	X	No
Significant deficiencies identified that are not considered to be material weakness(es)?	X	Yes		None reported

An unmodified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, or State of Texas Uniform Grant Management Standards?		Yes	X	No

Identification of major federal programs:

84.0110A - Title I
84.165A - Academies for Academic Enhancement and Excellence
84.334S - Gear Up

Dollar threshold use to distinguish between Type A and Type B programs?	$750,000 – Federal			
Auditee qualified as low-risk auditee?	X	Yes		No

Section 2. Financial Statement Findings

Finding 2018-001 – Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures

Criteria: The Chief Financial Officer (CFO) reviews balance sheet reconciliations during the month and year end close process. The CFO validates that the accounting treatment is correct, items have been recorded in the correct accounts, and that the source documentation to create closing journal entries is sufficient.

Condition: Presently, the CFO does not adequately review fiscal year end reconciliations, and there were several audit adjustments.

Context: We observed the following inadequate fiscal year end closing procedures:

1. **Accounts Payable**. During our testing of unrecorded liabilities, we noted that the District did not properly identify and accrue six (6) invoices that resulted in a material misstatement of the District's financial statements.

2. **Foundation Revenue.** During our testing of foundation revenue, we noted that the District did not properly record foundation revenue received, recording and entry to deferred revenue instead of foundation revenue.

3. **Federal Grant Reconciliations**. During our testing of federal grant revenue, we noted that the District does not reconcile cash receipts received to submitted reimbursement requests. This resulted in an overdraw of reimbursements requested for one grant at year end.

Effect or Potential Effect: Without sufficient fiscal year end closing procedures, errors are not detected timely, and the financial statements were materially misstated.

Cause: The District's business office does not have their year end close process instructions documented, and during the 2018 close process, the District had significant management turnover in the business office.

Recommendation: Document the year end close process. The District's future CFO or Director of Finance should have strong governmental accounting knowledge and the ability to implement effective monthly and fiscal year end closing procedures, complete or review reconciliations, and review a preliminary trial balance prior to the audit beginning. We also recommend that the District hire a grant manager as the District has a lot of different grants that are material in nature and there is currently no position in place to manage all the grants and ensure that all grants are in compliance, and all grants are reconciled on a monthly basis.

View of Responsible Officials: See corrective action plan

Finding 2018-002 – Significant Deficiency in Internal Control over Financial Reporting – Expense Reimbursement Process

Criteria: Before reimbursing employee expenses, the employee provides the District with documentation to support an incurred business expense. This includes the original receipt, documentation of business purpose, names of persons in attendance, and appropriate expense report for the incurred cost.

Condition: Expenses were reimbursed without proper documentation.

Context: Expenses were reimbursed without a receipt or proper expense reconciliation form to justify the expense.

Effect or Potential Effect: Without sufficient documentation, the District could reimburse an employee for unallowable costs.

Cause: The District's management approved expense reimbursements before the business office received the proper documentation.

Recommendation: We recommend that the expense reimbursement policy be followed by any individual requesting reimbursement from the District.

View of Responsible Officials: See corrective action plan

Finding 2018-003 – Significant Deficiency in Internal Control over Financial Reporting – Attendance Reports did not have evidence of review or approval

Criteria: The PEIMS coordinator reviews a campus attendance summary signed by the principal and compares the attendance information to what the teachers have entered into the system. The summary is also reviewed for reasonableness and the review process is evidenced by the signature of the PEIMS supervisor.

Condition: The approval process described above was eliminated in the current fiscal year.

Context: The supervisor is no longer evidencing his approval when comparing the campus attendance summary signed by the principal to the teacher attendance report or reviewing for reasonableness. During our walkthrough of internal controls, we noted a discrepancy between the two reports that had not been detected or reported.

Effect or Potential Effect: Without signing off on the review process, there is no evidence the review is being performed, and discrepancies are not reported.

Cause: The District's PEIMS supervisor no longer performs the key control in the attendance report policy.

Recommendation: We recommend that the supervisor review the reports for discrepancies and reasonableness and evidence such review by signing.

View of Responsible Officials: See corrective action plan

Finding 2018-004 – Compliance Finding – Expenditures Exceeded Amended Budget

Criteria: Legal requirements for school district budgets are formulated by the state (Texas Education Code), the TEA, and the local district. In accordance with the requirements of the Texas Education Code and the TEA, no funds may be expended in any manner other than as provided for in the adopted budget. A school district must amend the official budget before exceeding a functional expenditure category.

Condition: Expenditures exceeded the final amended budget in four functions in the general fund and one function in the child nutrition fund.

Context: The District's actual expenditures exceeded the final amended budget in fiscal years 2018 and 2017.

Effect or Potential Effect: Expenditures are being incurred without proper budget amendments.

Cause: The District's management authorized expenditures in excess of appropriations and are not properly monitoring actual versus budgeted expenditures. We also noted that purchase orders are not being completed consistently, therefore the business office is not able to compare the purchase order to the budget before the purchase is made.

Recommendation: We recommend that the District implement policies and procedures to strengthen the oversight and monitoring of expenditures and budget appropriations. We also recommend that the District complete purchase orders.

View of Responsible Officials: See corrective action plan

Section 3. Federal Awards Findings

Finding 2018-005 – Significant Deficiency in Internal Control over Compliance

Information on the Federal Programs: CFDA 84.010A – Title I, Part A – Improving Basic Programs, United States Department of Education. CFDA 84.165A – Academies for Academic Enhancement and Excellence, United States Department of Education; CFDA 84.334S – Gear Up, United States Department of Education.

Pass-Through Entity: State Department of Education

Compliance Requirements: Suspension and Debarment. The District must follow the procurement standards set out at 2 CFR sections 200.317 through 200.326.

Criteria: Before the District enters into a transaction with a vendor for a purchase that equals or exceeds $25,000, the District must verify that the vendor is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at https://www.sam.gov/portal/public/SAM/ (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition: During our testing of suspension and debarment, we were unable to verify that the District checked for suspension and debarment.

Cause: Purchasing does not keep documentation when they check for suspension or debarment.

Effect or Potential Effect: Failure to check and document suspension and debarment increases the risk that the District may contract with a suspended or debarred vendor, and thus have unallowable costs.

Questioned Costs: None

Context: During our testing of suspension and debarment, we noted documentation for checking suspension and debarment for vendors was not kept by the purchasing department.

Recommendation: We recommend that the District add a policy to print or scan documentation showing that all vendors with purchases of $25,000 or greater are not suspended or debarred.

View of Responsible Officials: See corrective action plan.

Corrective Action Plan (prepared by the District)

Finding 2018-001 – Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures

Corrective Action Planned: The District's new Superintendent and interim CFO, both in place after fiscal year end, are working together to reorganize and properly staff the Business Office with qualified individuals that will have the depth of knowledge to remedy all of these findings and strongly concur with the audit recommendation.
Anticipated completion date: Fiscal year 2019
Auditee contact person: Superintendent and interim CFO

Finding 2018-002 – Significant Deficiency in Internal Control over Financial Reporting – Expense Reimbursement Process

Corrective Action Planned: This was further investigated by the District, determined to be an isolated incident, and the credit card was cancelled. All reimbursements in the future will only occur after proper documentation has been submitted.
Anticipated completion date: Immediately
Auditee contact person: Interim CFO

Finding 2018-003 – Significant Deficiency in Internal Control over Financial Reporting – Attendance Reports did not have evidence of review or approval

Corrective Action Planned: The District concurs with the recommendation and will start a review process that is evidenced by the supervisor signing off on the attendance report.
Anticipated completion date: Immediately
Auditee contact person: PEIMS Supervisor

Finding 2018-004 – Significant Deficiency in Internal Control over Financial Reporting – Expenditures Exceeded Amended Budget

Corrective Action Planned: The District will begin monitoring budgets and preparing monthly budget amendments for the Board of Trustees' approval to minimize any function being overspent at year end. The District has a very detailed purchasing procedures manual and has expressed the expectation to all budget managers that they will comply to encumbering funds by issuance of a purchase order when appropriate which ensures budgeted funds are available for their acquisition of supplies, materials, or services.
Anticipated completion date: Immediately
Auditee contact person: Interim CFO

Finding 2018-005 – Significant Deficiency in Internal Control over Compliance

Corrective Action Planned: The District will comply with this requirement and check for and document all vendor searches to assure current approved vendors and potential new vendors have not been suspended or debarred.
Anticipated completion date: Implemented immediately
Auditee contact person: Interim CFO and Director of Purchasing

DeSoto Independent School District

Exhibit K-1

Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct programs			
Academies for Academic Enhancement and Excellence*	84.165A	U165A170043	$ 1,227,172
Gear Up*	84.334S	P334A140055	1,229,986
Investing in Innovation Fund	84.411C	U411C150127	855,410
Total direct programs			3,312,568
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs*	84.0110A	17610101057906	135,685
ESEA, Title I, Part A - Improving Basic Programs*	84.0110A	18610101057906	1,734,375
ESEA, Title I, Part A - 1003 School Improvement*	84.0110A	18610123057906	80,067
Total Title I, Part A			1,950,127
Special Education Cluster (IDEA):			
IDEA - Part B, Formula	84.027A	186600010579066000	1,836,417
IDEA - Part B, Preschool	84.173A	186610010579066000	26,529
IDEA - Part B, Discretionary	84.027A	176600060579066000	72,080
Total Special Education Cluster (IDEA)			1,935,026
Career and Technical - Basic Grant	84.048A	18420006057906	82,026
Career and Technical - Basic Grant	84.048A	173922017110010	55,353
Total Career and Technical Grants			137,379
Title III, Part A - Limited English Proficient	84.365A	17671001057906	11,450
Title III, Part A - English Language Acquisition	84.365A	18671001057906	29,500
Total Title III, Part A			40,950
21st Century	84.287C	176950247110007	16,148
21st Century	84.287C	186950247110007	1,551,522
Total 21st Century			1,567,670
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	18694501057906	185,535
ESEA, Title IV, Part A	84.424A	18680101057906	22,240
Workforce Innovation and Opportunity Act (WIOA) Cluster:			
2016-2018 Adult Program	17.258	173918017110010	45,630
2016-2018 Dislocated Workers Program	17.278	173920017110010	29,386
Total WIOA Cluster			75,016
Total passed through State Department of Education			5,913,943
TOTAL U.S. DEPARTMENT OF EDUCATION			9,226,511
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Department of Education			
CCDF Cluster:			
Child Care and Development Block Grant	93.575	173921017110012	304,375
Total passed through State Department of Education			304,375
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			304,375

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the State Department of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	71401801	$ 1,227,762
National School Lunch Program - Cash Assistance	10.555	71301801	3,299,582
National School Lunch Prog. - Non-Cash Assistance	10.555	71301801	411,960
Total Child Nutrition Cluster			4,939,304
Child & Adult Care Food Program - Cash Assistance	10.558	CEID: 00277	622,440
Total passed through the State Department of Agriculture			5,561,744
TOTAL U.S. DEPARTMENT OF AGRICULTURE			5,561,744
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 15,092,630

* Denotes major federal program

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

DeSoto Independent School District

Notes to the Schedule of Expenditures of Federal Awards

The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

The District participates in numerous State and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

The following table reconciles total expenditures per the schedule of expenditures of federal awards (Exhibit K-1) to the federal program revenues per Exhibit C-3:

Total expenditures of federal awards per Exhibit K-1	$	15,092,630
SHARS revenue		714,789
JROTC		116,870
Total federal programs revenue per Exhibit C-3	$	15,924,289

The District has elected not to use the 10% de minimis indirect cost rate.

APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on]

Effective Date: _________

Risk Premium: $_________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ______________________________________
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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gkb George K. Baum & Company

INVESTMENT BANKERS SINCE 1928