

OFFICIAL STATEMENT

Dated May 6, 2021

**Ratings:**  
**Fitch: “BBB+”**  
**Moody’s: “A3”**  
**(See “OTHER INFORMATION - Ratings” herein)**

**NEW ISSUE – Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on corporations.

**\$15,275,000**  
**MARTIN COUNTY HOSPITAL DISTRICT**  
*(Martin County, Texas)*  
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021**

**Dated: May 1, 2021**

**Due: April 1, as shown on page 2**

**Interest Accrual: Date of Initial Delivery (as defined below)**

**PAYMENT TERMS . . .** The \$15,275,000 Martin County Hospital District General Obligation Refunding Bonds, Series 2021 (the “Bonds”) will be issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, and Chapter 674, Acts of the 60<sup>th</sup> Legislature, Regular Session 1967, as amended, now codified as Chapter 1056, Texas Special District Local Laws Code, as amended (the “Enabling Act”), an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of Martin County Hospital District (the “District”) and a pricing certificate (the “Pricing Certificate”) executed by the pricing officer as designated in the Bond Order on the date of sale of the Bonds (the Bond Order and the Pricing Certificate are referred to herein, collectively, as the “Order”). Interest on the Bonds will accrue from the Date of Initial Delivery to the initial purchaser shown below (the “Underwriters”), will be payable April 1 and October 1 of each year commencing October 1, 2021, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – Book-Entry-Only System” herein). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.

**PAYMENT TERMS . . .** The Bonds are direct obligations of the District, payable both as to principal and interest solely from and secured by a continuing and direct annual ad valorem tax levied against all taxable property therein, within the limits prescribed by law (see “THE BONDS – Security and Source of Payment”). **The Bonds are not payable from any of the operating revenues of the District, and the Bonds are not secured by a mortgage on any of the properties of the District.**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations (the “Refunded Bonds”) and (ii) pay the costs associated with the issuance of the Bonds (see “SCHEDULE I – Schedule of Refunded Bonds” and “PLAN OF FINANCING”).

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**CUSIP PREFIX: 57325V**  
**MATURITY SCHEDULE & 9-DIGIT CUSIP**  
**See Page 2**

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**LEGALITY . . .** The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see APPENDIX C - “Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

**DELIVERY . . .** It is expected that the Bonds will be available for delivery through DTC on June 2, 2021 (the “Date of Initial Delivery”).

**SAMCO CAPITAL**

**FHN FINANCIAL CAPITAL MARKETS**

**MATURITY SCHEDULE**

Principal Amount	Maturity (April 1)	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 760,000	2022	4.000%	0.500%	AF6
790,000	2023	4.000%	0.590%	AG4
820,000	2024	4.000%	0.740%	AH2
855,000	2025	4.000%	0.940%	AJ8
890,000	2026	4.000%	1.140%	AK5
925,000	2027	4.000%	1.350%	AL3
965,000	2028	4.000%	1.550%	AM1
1,005,000	2029	4.000%	1.740%	AN9
1,045,000	2030	4.000%	1.940%	AP4
1,085,000	2031	4.000%	2.000% <sup>(2)</sup>	AQ2
1,130,000	2032	4.000%	2.070% <sup>(2)</sup>	AR0
1,175,000	2033	4.000%	2.100% <sup>(2)</sup>	AS8
1,225,000	2034	4.000%	2.130% <sup>(2)</sup>	AT6
1,275,000	2035	4.000%	2.160% <sup>(2)</sup>	AU3
1,330,000	2036	4.000%	2.200% <sup>(2)</sup>	AV1

**(Interest accrues from the Date of Initial Delivery)**

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield shown is yield to first call date, April 1, 2030.

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after April 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).

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No dealer, broker, salesman or other person has been authorized by the District or the Underwriters 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 Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

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

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.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including the schedule and all appendices attached hereto, to obtain information essential to making an informed investment decision.

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

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The cover page hereof, this page, the schedule, and the appendices included herein and any addenda, supplement or amendment hereto, are part of this Official Statement.

## OFFICIAL STATEMENT SUMMARY

This summary 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 summary from this Official Statement or to otherwise use it without the entire Official Statement.

<b>THE DISTRICT</b> .....	Martin County Hospital District (the "District") whose boundaries are coterminous with those of Martin County, Texas (the "County") is a hospital district created and existing under Article IX, Section 9 of the Constitution of the State of Texas which operates a hospital system in the County and which performs the essential public service of providing hospital and medical care to the District's residents located in the County. See "APPENDIX A" herein for more information about the District (see "INTRODUCTION – Description of the District").
<b>THE BONDS</b> .....	The Bonds are issued as \$15,275,000 General Obligation Refunding Bonds, Series 2021. The Bonds are issued as serial bonds maturing April 1 in the years 2022 through 2036, inclusive.
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the date of their delivery to the Underwriters, and is payable October 1, 2021, and each April 1 and October 1 thereafter until maturity or prior redemption (see "THE BONDS – General").
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are issued pursuant to the Constitution and the general laws of the State of Texas (the "State"), including particularly Chapter 674, Acts of the 60 <sup>th</sup> Legislature, Regular Session 1967, as amended, now codified as Chapter 1056, Texas Special District Local Laws Code, as amended (the "Enabling Act") and Chapter 1207, Texas Government Code, as amended, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of the District, and a pricing certificate (the "Pricing Certificate") executed by a pricing officer as designated in the Bond Order on the date of sale of the Bonds (the "Pricing Certificate") (the Bond Order and the Pricing Certificate are referred to herein, collectively, as the "Order").
<b>SECURITY</b> .....	The Bonds constitute direct obligations of the District, payable from the levy and collection of a continuing and direct annual ad valorem tax, levied within the limits prescribed by law, on all taxable property within the District (see "THE BONDS – Security and Source of Payment"). <b>The Bonds will not be secured by revenues from the District's operations, nor from a mortgage of or security interest in any tangible property of the District.</b>
<b>REDEMPTION PROVISIONS</b> .....	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after April 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").
<b>TAX EXEMPTION</b> .....	In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.
<b>USE OF PROCEEDS</b> .....	Proceeds of the Bonds will be used to (i) refund a portion of the District's outstanding obligations (the "Refunded Bonds") and (ii) pay the costs associated with the issuance of the Bonds (see "SCHEDULE I – Schedule of Refunded Bonds" and "PLAN OF FINANCING").
<b>RATINGS</b> .....	The Bonds and the outstanding debt of the District have been rated "BBB+" by Fitch Ratings ("Fitch") and "A3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement (see "OTHER INFORMATION – Ratings").

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

**PAYMENT RECORD .....** The District has never defaulted in payment of its bonds.

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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**DISTRICT BOARD**

<u>Board of Directors</u>	<u>Term Expires</u>	<u>Occupation</u>
Morgan Cox President	April, 2023	Self-Employed
Albert Garza Vice President	April, 2022	Retired
Jon Myrick Secretary	April, 2023	Self-Employed
Francis Hernandez Member	April, 2022	Chamber Director/Insurance Broker
Clay Parker Member	April, 2023	Self-Employed
Terry Franklin, Sr. Member	April, 2022	Self-Employed

**DISTRICT STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Nancy Cooke	Chief Executive Officer	1 Year
Tonya Glisan	Chief Financial Officer	1 Year

**CONSULTANTS AND ADVISORS**

Auditors .....Durbin & Company, L.L.P.  
Lubbock, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor.....Specialized Public Finance Inc.  
Dallas, Texas

For additional information regarding the District, please contact:

Nancy Cooke Chief Executive Officer Martin County Hospital District 600 East Interstate 20 Stanton, Texas 79782 432/607-3204	Or	Vince Viaille Managing Director Specialized Public Finance Inc. 4925 Greenville Avenue, Suite 1350 Dallas, Texas 75206 214/373-3911
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## OFFICIAL STATEMENT

**\$15,275,000**

### **MARTIN COUNTY HOSPITAL DISTRICT**

*(Martin County, Texas)*

### **GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021**

#### **INTRODUCTION**

This Official Statement, which includes the Schedule and the Appendices hereto, provides certain information regarding the issuance of the \$15,275,000 Martin County Hospital District General Obligation Refunding Bonds, Series 2021 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State"), including particularly Chapter 674, Acts of the 60th Legislature, Regular Session 1967, now codified as Chapter 1056, Texas Special District Local Laws Code, as amended (the "Enabling Act"), and Chapter 1207, Texas Government Code, as amended, and pursuant to an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the Martin County Hospital District (the "District") and a pricing certificate (the "Pricing Certificate") executed by the pricing officer as designated in the Bond Order on the date of sale of the Bonds (the Bond Order and the Pricing Certificate are referred to herein, collectively, as the "Order"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Specialized Public Finance Inc., Dallas, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

**DESCRIPTION OF THE DISTRICT** . . . The District was established for the primary purpose of owning and operating a critical access hospital (the "Hospital") in Stanton, Texas. The Hospital is a community hospital and is the only hospital facility in Martin County, Texas (the "County"). The District is a hospital district created and existing pursuant to Article IX, Section 9 of the Texas Constitution and the Enabling Act.

The District operates a hospital system in the County and performs an essential public service of providing hospital and medical care to the District's residents located in the County. The District is governed by a six member Board of Hospital Managers (the "Board") appointed by the Martin County Commissioners Court and Board members each serve staggered two-year terms. Board members are "public officers" under the Texas Constitution and, as a body, exercise sovereign functions of government independent of control of others and serve without pay. See "APPENDIX A" hereto. The District is not affiliated with the County, which is a separate and distinct political subdivision.

#### **PLAN OF FINANCING**

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding obligations to achieve debt service savings (the "Refunded Bonds") and (ii) pay the costs associated with the issuance of the Bonds. See "SCHEDULE I – Schedule of Refunded Bonds" for a detailed listing of the Refunded Bonds and their redemption date.

**REFUNDED BONDS** . . . The principal and interest due on the Refunded Bonds will be paid on the redemption date of the Refunded Bonds, from funds to be deposited with the Escrow Agent (as defined herein) pursuant to an Escrow Agreement by and between the District and BOKF, NA, Dallas, Texas (the "Escrow Agent"). The Order provides that from the proceeds of the sale of the Bonds received from the Underwriters, the District will deposit with the Escrow Agent the full cash amount required to pay all amounts coming due on the Refunded Bonds on the redemption date and to accomplish the discharge and final payment of the Refunded Bonds on the redemption date. Such funds will be held by the Escrow Agent in a trust clearing account pending their disbursement to redeem the Refunded Bonds on the redemption date. By the deposit with the Escrow Agent in such trust clearing account, the District will have effected the defeasance of the Refunded Bonds in accordance with the applicable law.

Specialized Public Finance Inc., acting as Financial Advisor to the District, will provide a sufficiency certificate (the "Certificate") verifying at the time of delivery of the Bonds to the Underwriters that the full cash amount deposited into the Escrow Fund will be sufficient to pay on the redemption date the principal of and interest on the Refunded Bonds. The Certificate will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

By the deposit of the Bond proceeds and cash, if any, with the Escrow Agent, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Escrow Agent, and the Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the sources and secured in the manner provided in the ordinance authorizing their issuance or for any other purpose.

**SOURCES AND USES OF FUNDS** . . . The proceeds from the sale of the Bonds, together with other lawfully available funds of the District, will be applied approximately as follows:

**SOURCES OF FUNDS:**

Par Amount of the Bonds	\$ 15,275,000.00
Reoffering Premium	2,083,628.20
District Contributions	438,102.48
Total Sources of Funds	<u>\$ 17,796,730.68</u>

**USES OF FUNDS:**

Deposit to Escrow Fund	\$ 17,453,095.42
Underwriter's Discount	133,099.00
Costs of Issuance/Rounding Amount	210,536.26
Total Uses of Funds	<u>\$ 17,796,730.68</u>

**THE BONDS**

**DESCRIPTION OF THE BONDS** . . . The Bonds are dated May 1, 2021. The Bonds mature on April 1 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the date of the initial delivery (anticipated to be June 2, 2021, the “Date of Initial Delivery”), will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on April 1 and October 1 of each year, commencing October 1, 2021, until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein).

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapter 1207, as amended (“Chapter 1207”), and the Bond Order adopted by the Board. In the Bond Order, the Board delegated to an officer of the District, pursuant to Chapter 1207, authority to complete the sale of the Bonds. The terms of sale have been included in a “Pricing Certificate” which completed the sale of the Bonds to the Underwriters (the Bond Order and the Pricing Certificate are collectively referred to herein as the “Order”).

**SECURITY AND SOURCE OF PAYMENT** . . . The principal of and interest on the Bonds is payable from a continuing and direct annual ad valorem tax levied by the District within the limits prescribed by law upon all taxable property in the District.

**TAX RATE LIMITATION** . . . All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Pursuant to Article IX, Section 9 of the Texas Constitution, an election held within the District on May 8, 2010, and the final judgment of the 53<sup>rd</sup> District Court of Travis County, Texas on December 7, 2010, the maximum ad valorem tax rate of the District is limited to \$0.75 per \$100 of assessed valuation for purposes of paying the principal of and interest on the Bonds and for any sinking fund related thereto. Pursuant to an election held within the District on November 11, 1967, the maximum tax rate that may be levied by the District for purposing of paying maintenance and operations expenses is \$0.30 per \$100 in valuation, and the total combined tax rate of the District for all purposes—including both maintenance and operations and the payment of debt service on bonds—is \$0.75 per \$100 in valuation.

**OPTIONAL REDEMPTION** . . . The Bonds having stated maturities on and after April 1, 2031, are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2030 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

**NOTICE OF REDEMPTION** . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE



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

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

**DTC REDEMPTION PROVISIONS** . . . The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption of Bonds, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant (defined below) or Indirect Participant (defined below) to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See "THE BONDS - Book-Entry-Only System" herein.

**DEFEASANCE** . . . The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or authorized escrow agent, in trust (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until all defeased Bonds shall have become due and payable, 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 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 their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the 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.

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 as Defeasance Securities or that ratings for any other Defeasance Security will be maintained at any particular rating category.

Upon defeasance, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the

making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Upon making such deposit in the manner described, such defeased Bonds shall no longer be deemed outstanding obligations secured by the Order, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose.

**AMENDMENTS** . . . In the Order, the District has reserved the right to amend the Order without the consent of any holder of the Bonds for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

**BOOK-ENTRY-ONLY SYSTEM** . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 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 Bonds. 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](http://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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor, or the Underwriters.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. Interest on and principal of the Bonds will be payable, and transfer functions will be performed, at the office for payment of the Paying Agent/Registrar in Dallas, Texas (the "Designated Payment/Transfer Office"). In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer.

Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to make any transfer, conversion, or exchange of Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

**RECORD DATE FOR INTEREST PAYMENT. . .** The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth calendar 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 (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of an Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**BONDHOLDERS’ REMEDIES . . .** The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Order and the District’s obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the 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 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous language.” Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the District for breach of the covenants in the Bonds or in the Order. 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. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities under certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”), and together with *Wasson I* (“*Wasson*”), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the

government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Order provides that holders of the Bonds may exercise the remedy of mandamus to enforce the obligations of the District under the Order. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). 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, by principles of governmental immunity, and by general principles of equity that permit the exercise of judicial discretion.

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic, which disaster declaration was extended and is still in effect. Under State law, the proclamation of a state of disaster by the Governor may not continue for more than 30 days unless renewed by the Governor. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation and the phased reopening of the State. Most recently, on March 2, 2021, the Governor issued Executive Order GA-34, which, among other things, removed any COVID-19-related operating limits for any business or other establishment and ended the State-wide mask mandate, effective March 10, 2021. The Governor's order also maintains, in providing or obtaining services, every person (including individuals, businesses, and other legal entities) should use good-faith efforts and available resources to follow the minimum standard health protocols. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <http://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

**POTENTIAL IMPACT OF COVID-19 . . .** A continued spread of COVID-19, and measures taken to prevent or reduce such spread, could adversely impact state, national and global economic activities and, accordingly, adversely impact the financial condition and performance of the District; the extent of such impact could be material.

While the effects of COVID-19 on the national, state and local levels may be temporary, it has altered the behavior of businesses and people in a manner that has had negative impacts on global and local economies. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

While any impact on the District is currently uncertain, the District continues to monitor the impact of COVID-19 on its operations. The District cannot predict the impact COVID-19 may have on the District's financial and operating condition or an investment in the Bonds. The Bonds are secured by ad valorem tax revenues collected and assessed annually. It is unclear at this time what if any effect the COVID-19 outbreak and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. For a review of the ad valorem tax system, see "AD VALOREM TAX PROCEDURES".

## AD VALOREM TAX PROCEDURES

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

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates.

**STATE MANDATED HOMESTEAD EXEMPTIONS . . .** State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

**LOCAL OPTION HOMESTEAD EXEMPTIONS . . .** The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

**LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED . . .** The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

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

**FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS . . .** Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit

beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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

**TAX INCREMENT FINANCING ZONES . . .** A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units, such as the District, may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value," and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See "AD VALOREM TAX PROCEDURES – District Application of Property Tax Code" for descriptions of any TIRZ created in the District.

**TAX ABATEMENT AGREEMENTS . . .** Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "AD VALOREM TAX PROCEDURES – District Application of Property Tax Code" for descriptions of any of the District's tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM TAX PROCEDURES – District Application of Property Tax Code" herein.

**PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS . . .** The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.08, plus the debt service tax rate, plus the "unused increment rate."

The portion of the District's overall tax rate used to pay current expenses is herein referred to as the maintenance and operations tax rate and the portion of the tax rate used for funding debt service in the current year is referred to herein as the debt service tax rate. As a general matter, the District's maintenance and operations tax rate cannot increase by more than 8% from one year to the next, subject to various exceptions, including the de minimis rate described above. Such limitation does not apply to the District's debt service tax rate.

Under State law, the Martin County assessor-collector must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the District to the District by August 1 or as soon as practicable thereafter. The District must then calculate its annual voter-approval tax rate and no-new-revenue tax rate (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the District and the Martin County tax assessor-collector. The District must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If the District fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the District for the preceding tax year.

The Property Tax Code provides that if a District adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

The District may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until the Martin County Appraisal District has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the District has held a public hearing on the proposed tax increase.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the District’s ability to set a debt service tax rate in each year sufficient to pay debt service on all of the District’s tax-supported debt obligations, including the Bonds, subject only to constitutional limitations (see “THE BONDS - Tax Rate Limitations” herein).

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in either the standard edition of the Annual Energy Outlook published by the United States Energy Information Administration or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. In general, property subject to the District’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

**DISTRICT’S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . .** Taxes levied by the District are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. 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 (a taxpayer may redeem property within two (2) years after the purchaser’s deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.



**DISTRICT APPLICATION OF PROPERTY TAX CODE . . .** Property within the District is appraised by the Martin County Appraisal District. The District’s taxes are collected by the Martin County Appraisal District.

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

The District has not granted an additional exemption of 20% of the market value of residence homesteads.

Ad valorem taxes are not levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax nonbusiness personal property.

The District does not allow split payments or discounts.

The District does not tax freeport property.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2020/2021 Market Valuation Established by the Martin County Appraisal District (excluding exempt property)	\$ 10,272,188,690
Less Exemptions/Reductions at 100% Market Value:	25,409,000
2020/2021 Net Taxable Assessed Valuation	<u>\$ 10,246,779,690</u>
District Funded Debt Payable from Ad Valorem Taxes (as of 3/31/21) The Bonds	\$ 670,000 <sup>(1)</sup> <u>15,275,000</u>
Total General Obligation Debt Payable from Ad Valorem Taxes	<u>\$ 15,945,000</u>
General Obligation Interest and Sinking Fund (as of 3/31/21)	\$ 1,976,001
Ratio General Obligation Debt to Taxable Assessed Valuation	0.16%

2020 Estimated Population - 5,771  
Per Capita Taxable Assessed Valuation - \$1,775,564  
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$2,763

<sup>(1)</sup> Excludes the Refunded Bonds.

**TABLE 2 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 4/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	General Purpose G.O. Tax Debt	Ratio General Purpose Debt to Taxable Assessed Valuation	Per Capita General Purpose G.O. Tax Debt
2017	5,531	\$ 4,018,526,710	\$ 726,546	\$ 19,585,000	0.49%	\$ 3,541
2018	5,681	4,318,310,850	760,132	19,055,000	0.44%	3,354
2019	5,771	4,584,761,030	794,448	18,485,000	0.40%	3,203
2020	5,771	7,622,196,030	1,320,776	17,870,000	0.23%	3,097
2021	5,771	10,246,779,690	1,775,564	17,200,000	0.17%	2,980
2022	5,771	N/A	N/A	14,515,000 <sup>(3)</sup>	N/A	2,515

(1) Estimated by District officials.

(2) As reported by the Martin County Appraisal District on the District’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Includes the Bonds and excludes the Refunded Bonds.

**TABLE 3 - VALUATION, TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 4/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2017	\$ 0.2710	\$ 0.2230	\$ 0.0480	\$ 6,573,797	99.00%	99.00%
2018	0.2720	0.2261	0.0459	7,107,974	98.77%	98.77%
2019	0.2750	0.2329	0.0421	7,742,785	97.70%	97.70%
2020	0.2030	0.1813	0.0217	11,097,524	96.80%	96.80%
2021	0.1976	0.1786	0.0190	14,913,835	98.53% <sup>(1)</sup>	98.53% <sup>(1)</sup>

(1) Collections as of March 31, 2021.

**TABLE 4 - TEN LARGEST TAXPAYERS <sup>(1)</sup>**

Name of Taxpayer	2020/2021 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Pioneer Natural Resources	\$ 1,134,492,700	11.07%
XTO Energy Inc.	939,806,250	9.17%
Endeavor Energy Resources	811,065,080	7.92%
Diamondback E&P LLC	772,060,010	7.53%
QEP Energy Co.	369,723,620	3.61%
Ovintiv USA Inc.	364,427,630	3.56%
Hunt Oil Co.	327,576,920	3.20%
QEP Resources Inc.	325,154,030	3.17%
Scharbauer Minerals LP	261,787,000	2.55%
Crownquest Operating LLC	206,660,240	2.02%
	<u>\$ 5,512,753,480</u>	<u>53.80%</u>

(1) As shown in the table above, the top ten taxpayers in the District currently account for over 53% of the District’s tax base, with the majority of such property comprised of minerals and related business activities. Adverse developments in economic conditions, especially in the oil and natural gas industry, could adversely impact the businesses that own mineral properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See “THE BONDS – Bondholders’ Remedies” and “TAX INFORMATION – Penalties and Interest” in the Official Statement.

**TABLE 5 - TAX ADEQUACY <sup>(1)</sup>**

Principal and Interest Requirements, 2021	\$ 1,512,944
\$0.0156 Tax Rate at 95.00% Collection Produces	\$ 1,518,573
Average Annual Principal and Interest Requirements, 2021 - 2036	\$ 1,363,965
\$0.0141 Tax Rate at 95.00% Collection Produces	\$ 1,372,556
Maximum Principal and Interest Requirements, 2021	\$ 1,512,944
\$0.0156 Tax Rate at 95.00% Collection Produces	\$ 1,518,573

(1) Based on December 31 calendar year. Includes the Bonds and excludes the Refunded Bonds.

**ESTIMATED OVERLAPPING TAXING JURISDICTIONS**

Expenditures of the various taxing bodies within the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties within the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date stated above, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined. This table reflects the estimated share of overlapping funded debt of the District.

Taxing Jurisdiction	General Purpose Funded Debt As of 3/31/21	Estimated % Applicable	District's Overlapping Funded Debt As of 3/31/21 <sup>(1)</sup>
Martin County Hospital District	\$ 15,945,000	100.00%	\$ 15,945,000
Grady ISD	21,245,000	100.00%	21,245,000
Klondike ISD	8,780,000	62.83%	5,516,474
Martin County	-	100.00%	-
Midland, City of	228,295,000	0.11%	251,125
Sands CISD	-	38.63%	-
Stanton ISD	11,530,000	97.28%	11,216,384
Stanton, City of	1,180,000	100.00%	1,180,000
Total Direct and Overlapping G.O. Debt			\$ 55,353,983
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation			0.54%
Per Capita Overlapping G.O. Debt			\$ 9,592

(1) Includes the Bonds and excludes the Refunded Bonds.

## DEBT INFORMATION

**TABLE 6 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Year Ended 12/31	Outstanding Debt <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest	Total	
2021	\$ 670,000	\$ 640,975	\$ 1,310,975	\$ -	\$ 201,969	\$ 201,969	\$ 1,512,944
2022	-	-	-	760,000	595,800	1,355,800	1,355,800
2023	-	-	-	790,000	564,800	1,354,800	1,354,800
2024	-	-	-	820,000	532,600	1,352,600	1,352,600
2025	-	-	-	855,000	499,100	1,354,100	1,354,100
2026	-	-	-	890,000	464,200	1,354,200	1,354,200
2027	-	-	-	925,000	427,900	1,352,900	1,352,900
2028	-	-	-	965,000	390,100	1,355,100	1,355,100
2029	-	-	-	1,005,000	350,700	1,355,700	1,355,700
2030	-	-	-	1,045,000	309,700	1,354,700	1,354,700
2031	-	-	-	1,085,000	267,100	1,352,100	1,352,100
2032	-	-	-	1,130,000	222,800	1,352,800	1,352,800
2033	-	-	-	1,175,000	176,700	1,351,700	1,351,700
2034	-	-	-	1,225,000	128,700	1,353,700	1,353,700
2035	-	-	-	1,275,000	78,700	1,353,700	1,353,700
2036	-	-	-	1,330,000	26,600	1,356,600	1,356,600
	<u>\$ 670,000</u>	<u>\$ 640,975</u>	<u>\$ 1,310,975</u>	<u>\$ 15,275,000</u>	<u>\$ 5,237,469</u>	<u>\$ 20,512,469</u>	<u>\$ 21,823,444</u>

(1) Excludes the Refunded Bonds.

(2) Interest on the Bonds has been calculated at the rates set forth on the inside cover.

### AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

As of March 31, 2021, the District does not have any authorized but unissued general obligation bonds.

### OTHER OBLIGATIONS

As of March 31, 2021, the District has the following capital leases:

5.05% capital lease obligation for PT equipment payable in monthly principal and interest payments of \$3,069, collateralized by equipment.

8.20% capital lease obligation for a hematology system payable in monthly principal and interest payments of \$3,765, collateralized by equipment.

## FINANCIAL INFORMATION

**TABLE 7 – CHANGES IN NET POSITION**

	Fiscal Year Ended April 30,				
	2020	2019	2018	2017	2016
<b><u>OPERATING REVENUES:</u></b>					
Net Patient Service Revenue	\$ 17,654,638	\$ 17,643,011	\$ 14,649,525	\$ 13,748,285	\$ 12,878,148
Other Revenue	1,206,359	1,065,663	623,119	506,373	416,230
Total Operating Revenues	<u>\$ 18,860,997</u>	<u>\$ 18,708,674</u>	<u>\$ 15,272,644</u>	<u>\$ 14,254,658</u>	<u>\$ 13,294,378</u>
<b><u>OPERATING EXPENSES:</u></b>					
Salaries and Wages	\$ 13,524,868	\$ 11,877,535	\$ 10,395,568	\$ 10,184,092	\$ 8,761,876
Employee Benefits	2,920,474	2,715,727	1,886,744	1,940,974	1,440,288
Professional Fees and Purchased Services	5,149,007	4,754,685	3,470,285	3,549,027	4,052,286
Supplies and Other	5,395,338	4,935,484	4,557,311	4,419,452	3,204,166
Depreciation and Amortization	2,123,315	1,858,545	1,520,886	1,435,791	1,314,343
Total Operating Expenses	<u>\$ 29,113,002</u>	<u>\$ 26,141,976</u>	<u>\$ 21,830,794</u>	<u>\$ 21,529,336</u>	<u>\$ 18,772,959</u>
Operating Loss	(10,252,005)	(7,433,302)	(6,558,150)	(7,274,678)	(5,478,581)
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>					
Property Tax Revenue	\$ 19,284,590	\$ 14,959,545	\$ 11,809,924	\$ 10,813,097	\$ 10,427,853
Noncapital Grants and Contributions	5,221	9,772	73,800	73,800	18,408
Investment Income	51,351	11,548	4,924	3,810	3,776
Interest Expense	(1,399,803)	(1,402,372)	647	3,589	(1,485,820)
COVID-19 Federal Financial Assistance	510,195	-	-	-	-
Gain (Loss) on Disposal of Assets	45,057	114,482	(1,565,052)	(1,497,422)	-
Total Nonoperating Revenues (Expenses)	<u>\$ 18,496,611</u>	<u>\$ 13,692,975</u>	<u>\$ 10,324,243</u>	<u>\$ 9,396,874</u>	<u>\$ 8,964,217</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	8,244,606	6,259,673	3,766,093	2,122,196	3,485,636
Capital Grants and Contributions	<u>28,916</u>	<u>75,000</u>	<u>75,000</u>	<u>463</u>	<u>7,939</u>
Increase in Net Position	8,273,522	6,334,673	3,841,093	2,122,659	3,493,575
Net Position, Beginning of Year	\$ 30,898,005	\$ 24,563,332	\$ 20,722,239	\$ 18,599,580	\$ 15,106,005
Net Position, End of Year	<u>\$ 39,171,527</u>	<u>\$ 30,898,005</u>	<u>\$ 24,563,332</u>	<u>\$ 20,722,239</u>	<u>\$ 18,599,580</u>

**Subsequent Events:**

- For Fiscal Year 2021 (in May 2020), the US Department of Health and Human Services provided approximately \$3.6 million to the District from funds appropriated in the Public Health and Social Services Emergency Fund for provider relief (“Relief Fund”) under Division B of Public Law 116-127. By accepting the Relief Funds, the District must maintain compliance with the Secretary’s terms and conditions including, but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District’s commitment to full compliance with all terms and conditions is material to the Secretary’s decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.
- For Fiscal Year 2021 (in July 2020), the District received insurance settlement proceeds in the amount of \$1,870,585 as a result of property damage caused to the hospital roof from a hail storm. The District is in the preliminary planning phase of a new roof replacement project. Total project cost and project completion date has yet to be determined.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

For detail information concerning Summary of Significant Accounting Policies, see APPENDIX B, "Excerpts from the District’s Annual Financial Report" - Note # 1.

**TABLE 8 - STATEMENTS OF NET POSITION**

	Fiscal Year Ended April 30,				
	2020	2019	2018	2017	2016
<b>ASSETS:</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 22,676,709	\$ 15,315,553	\$ 10,145,504	\$ 11,527,388	\$ 8,599,664
Patient Accounts Receivable, Net of Allowance	2,149,365	3,056,479	2,773,283	2,531,712	2,842,808
Estimated Third-Party Payor Settlements	1,636,531	1,073,537	1,173,983	160,796	-
Inventory of Supplies	624,156	531,673	563,682	438,057	529,902
Prepaid and Other Current Assets	526,305	1,139,480	432,029	773,794	782,001
Property Taxes Receivable	517,298	875,238	393,674	334,570	329,619
Total Current Assets	<u>\$ 28,130,364</u>	<u>\$ 21,991,960</u>	<u>\$ 15,482,155</u>	<u>\$ 15,766,317</u>	<u>\$ 13,083,994</u>
<b>RESTRICTED ASSETS</b>					
Capital Improvements	\$ 63,102	\$ 63,102	\$ 63,102	\$ 63,102	\$ 63,102
Debt Service	2,683,736	1,291,507	904,014	521,239	2,878,776
Total Restricted Assets	<u>\$ 2,746,838</u>	<u>\$ 1,354,609</u>	<u>\$ 967,116</u>	<u>\$ 584,341</u>	<u>\$ 2,941,878</u>
<b>CAPITAL ASSETS</b>					
Land	\$ 733,247	\$ 796,119	\$ 860,055	\$ 400,032	\$ 400,032
Construction-in-Progress	151,109	28,438	569,519	4,917,376	1,190,962
Depreciable Capital Assets, Net	26,106,557	26,951,055	27,105,398	22,971,879	23,233,793
Total Capital Assets, Net	<u>\$ 26,990,913</u>	<u>\$ 27,775,612</u>	<u>\$ 28,534,972</u>	<u>\$ 28,289,287</u>	<u>\$ 24,824,787</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Excess Consideration Provided for Acquisition of Home Health Agency	326,667	366,667	-	-	-
Total Assets and Deferred Outflows of Resources	<u>\$ 58,194,782</u>	<u>\$ 51,488,848</u>	<u>\$ 44,984,243</u>	<u>\$ 44,639,945</u>	<u>\$ 40,850,659</u>
<b>LIABILITIES AND NET POSITION:</b>					
<b>CURRENT LIABILITIES</b>					
Current Portion of Long-Term Debt	\$ 679,734	\$ 634,085	\$ 578,997	\$ 537,085	\$ 473,575
Notes Payable	-	-	-	2,000,000	\$ 569,268
Accounts Payable	275,197	792,518	581,633	1,344,990	762,323
Accrued Payroll, Benefits, and Related Liabilities	887,219	1,256,103	966,208	955,348	877,196
Estimated Third-Party Payor Settlements	-	-	-	-	229,272
Other Accrued Liabilities	258,691	313,823	219,905	427,118	230,095
Total Current Liabilities	<u>\$ 2,100,841</u>	<u>\$ 2,996,529</u>	<u>\$ 2,346,743</u>	<u>\$ 5,264,541</u>	<u>\$ 3,141,729</u>
<b>NONCURRENT LIABILITIES</b>					
Long-Term Debt, Net of Current Portion	16,922,414	17,594,314	18,074,168	18,653,165	19,109,350
Total Liabilities	<u>\$ 19,023,255</u>	<u>\$ 20,590,843</u>	<u>\$ 20,420,911</u>	<u>\$ 23,917,706</u>	<u>\$ 22,251,079</u>
<b>NET POSITION</b>					
Net Investment in Capital Assets	\$ 9,388,765	\$ 9,547,213	\$ 9,881,807	\$ 7,099,037	\$ 4,672,594
Restricted:					
For Capital Improvements	63,102	63,102	63,102	63,102	63,102
For Debt Service	2,683,736	1,291,507	904,014	521,239	2,878,776
Unrestricted	27,035,924	19,996,183	13,714,409	13,038,861	10,985,108
Total Net Position	<u>\$ 39,171,527</u>	<u>\$ 30,898,005</u>	<u>\$ 24,563,332</u>	<u>\$ 20,722,239</u>	<u>\$ 18,599,580</u>
Total Liabilities and Net Position	<u>\$ 58,194,782</u>	<u>\$ 51,488,848</u>	<u>\$ 44,984,243</u>	<u>\$ 44,639,945</u>	<u>\$ 40,850,659</u>

## INVESTMENTS

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

**LEGAL INVESTMENTS . . .** Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State 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 Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) 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 (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) (i) certificates of deposit and share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or in any other manner and amount provided by law for District deposits, or (ii) certificates of deposit where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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 Bonds of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the Bonds of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), 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) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved 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; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations 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 (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a 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 PFIA. 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.

The investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government’s investment policy regarding the debt issuance or the agreement.

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

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance, or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (4) require the registered principal of firms seeking to sell securities to 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, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority),, and (c) deliver a written statement attesting to these requirements, (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District’s investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

**TABLE 9 – CURRENT INVESTMENTS**

As of March 31, 2021, the District’s investable funds were invested in the following categories of investments, valued as set forth below:

Description	Market Value
Bank Accounts	\$ 44,415,035
	<u>\$ 44,415,035</u>



## TAX MATTERS

**OPINIONS . . .** On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, 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, as amended (the “Code”). Except as stated above, Bond Counsel 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 Bond Counsel’s Opinion”.

In rendering the foregoing opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District’s federal tax Bond, (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith, and (c) the sufficiency certificate of Specialized Public Finance Inc. verifying the sufficiency of the amounts deposited to pay the principal of and interest on the Refunded Obligations on their redemption date. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the 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. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that 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 property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether 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 Internal Revenue Service 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 Bonds, 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 Bond 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 Law, which is 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 accumulated earnings and profits and excess passive investment income, 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.

**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 IRS. Payments of interest and principal may be subject to 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.

**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.

**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.

## 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 Obligations. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge from the MSRB via the EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS** . . . The District will provide certain updated financial information and operating data to the MSRB annually. 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 under Tables numbered 1 through 9 and in APPENDIX B, which is the District's annual audited financial report. The District will update and provide the information in the numbered tables referred to above within six months after the end of each fiscal year ending in and after 2021. The District will additionally provide audited financial statements within 12 months after the end of each fiscal year ending in or after 2021. 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 information of the type described in the numbered tables above by the required time 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 B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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 the Rule.

The District's current fiscal year end is April 30. Accordingly, it must provide updated financial and operating data by October 31 of each year and financial statements by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**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 Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the District (as defined by SEC Rule 15c2-12 (the "Rule"), which includes certain debt, debt-like, and debt related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties. 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."

For these purposes, any event described in (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 purposes of the events described in (15) and (16) above, "Financial Obligation" means (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) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) 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. The information will be available free of charge via the MSRB's EMMA system at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS** . . . The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The continuing disclosure agreement may be amended by the District 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 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 interpretation 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 (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized Bond Counsel) determines 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 the continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS** . . . Except as described below, during the past five years, the District has complied in all material respects with all continuing disclosure agreements made in accordance with Rule 15c2-12.

In 2011 the District issued two series of bonds – Martin County Hospital District Combination Limited Tax and Revenue Bonds - Series 2011A and Taxable Series 2011B. These obligations provided that the District would provide certain updated financial information and operating data to the MSRB annually. The financial information was to be provided under four reporting mechanisms: Annual Reports, Quarterly Reports, Monthly Reports, and Event Notices. Capitalized terms used under this subheading have the meanings ascribed to such terms in the official statements relating to the above referenced bonds.

**Annual Reports** were to be provided to the MSRB within 6 months after the end of each fiscal year ending in and after 2011 and were to include all quantitative financial information and operating data with respect to the District of the general type included in the Official Statement in Appendix A (Information about the District) and Appendix B (District's Financial Statements).

For Fiscal Year ending in 2014, the District failed to timely file its Annual Report by October 31, 2014. A Notice of Failure to File Disclosure was filed on August 1, 2014, and the audited Annual Report was filed on January 27, 2015. For Fiscal Year ending in 2015, the District failed to timely file its Annual Report by October 31, 2015. A Notice of Failure to File Disclosure was filed on September 2, 2015, and the audited Annual Report was filed on December 31, 2015. For Fiscal Year ending in 2016, the District failed to timely file its Annual Report by October 31, 2016. A Notice of Failure to File Disclosure was filed on July 25, 2016, and the audited Annual Report was filed on January 29, 2016. For Fiscal Year ending in 2017, the District failed to file its Annual Report by October 31, 2017. A Notice of Failure to File Disclosure was filed on September 29, 2017, and the audited Annual Report was filed on January 17, 2018. For Fiscal Year ending in 2018, the District timely filed its Annual Report on October 30, 2018, despite filing a Notice of Failure to File Disclosure was filed on September 20, 2018. For Fiscal Year ending in 2019, the District timely filed its Annual Report on October 31, 2019, despite filing a Notice of Failure to File Disclosure was filed on August 28, 2019. For Fiscal Year ending in 2020, the District failed to file its Annual Report by October 31, 2020. A Notice of Failure to File Disclosure was filed on August 27, 2020. The District filed unaudited financials on April 8, 2020 but has yet to file its Annual Report for Fiscal Year Ending 2020.

**Quarterly Reports** were to be provided to EMMA on each quarter, commencing with July 31, 2011, and each fiscal quarter thereafter, and to each Beneficial Owner of \$1,000,000 or more in Bonds and who requested such information in writing, and were to include unaudited financial statements of the District (including a balance sheet, income statement, cash flows and changes in fund balance) for such period.

For Fiscal Year ending in 2014, the District timely filed its Quarterly Reports for the 1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> Quarters, but filed its 4<sup>th</sup> Quarterly Report due on June 30, 2014 on September 16, 2014. For Fiscal Year ending in 2015, the District timely filed its Quarterly Report for the 1<sup>st</sup> Quarter, filed its 2<sup>nd</sup> Quarterly Report due on December 31, 2014 on January 27, 2015, but failed to file its 3<sup>rd</sup> and 4<sup>th</sup> Quarter Quarterly Reports for Fiscal Year Ending in 2015. For Fiscal Year ending in 2016, the District failed to file any Quarterly Reports. For Fiscal Year ending in 2017, the District timely filed its Quarterly Report for the 1<sup>st</sup> Quarter, but failed to

file its 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> Quarter Quarterly Reports for Fiscal Year Ending in 2017. For Fiscal Year ending in 2018, the District timely filed its Quarterly Report for the 1<sup>st</sup> Quarter, failed to file its Quarterly Report for the 2<sup>nd</sup> Quarter, filed its 3<sup>rd</sup> Quarterly Report due on March 31, 2018 on September 20, 2018, and filed its 4<sup>th</sup> Quarterly Report due on June 30, 2018 on September 20, 2018. For Fiscal Year ending in 2019, the District filed its 1<sup>st</sup> Quarterly Report due on July 31, 2018 on December 4, 2018, filed its 2<sup>nd</sup> Quarterly Report due on December 31, 2018 on December 5, 2018; however, the District failed to file its 3<sup>rd</sup> and 4<sup>th</sup> Quarter Quarterly Reports for Fiscal Year Ending in 2019. For Fiscal Year ending in 2020, the District failed to file any Quarterly Reports. For Fiscal Year ending in 2021, the District timely filed its Quarterly Report for the 1<sup>st</sup> Quarter but has yet to file its Quarterly Reports for the 2<sup>nd</sup> and 3<sup>rd</sup> Quarters which were due on October 31, 2020 and January 31, 2021, respectively. The District's 4<sup>th</sup> Quarter Quarterly Report is due on April 30, 2021.

**Monthly Reports** were to be provided to the Dissemination Agent, EMMA and to each Beneficial Owner of \$1,000,000 or more in Bonds and who requested such information in writing, not later than the 20th day of each month, commencing April 20, 2011, prior to the completion of the Project, and were to include a construction progress report including but not limited to: reports from the Construction Monitor, budget reports, contractor progress reports.

The District timely filed Monthly Reports each month from April 25, 2011 through August 20, 2012. The District substantially completed construction of the main hospital on May 1, 2012 and the clinic on June 29, 2012. Pursuant to the undertaking, the monthly reporting requirement ceased upon completion of construction.

The District recognizes that there have been instances of non-compliance in the past five years with its previously executed undertakings, as noted above. The District has undertaken measures to ensure compliance with its undertakings going forward, including the engagement of a municipal advisor to assist with its preparation and submission of required periodic and event-based reports.

## OTHER INFORMATION

**RATINGS** . . . The Bonds and the outstanding debt of the District have been rated "BBB+" by Fitch Ratings ("Fitch") and "A3" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement. An explanation of the significance of such rating may be obtained from Fitch and Moody's. The ratings reflect only the view of such organization and the District makes no representation as to the appropriateness of any ratings. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by such rating companies, in the judgment of the companies, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

**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 of the District.

As a local governmental unit the District is subject to the provisions of the Texas statute known as the Texas Tort Claims Act, including the provisions thereof that limit liability in tort claims involving personal injury and death caused by a condition or use of tangible personal or real property. Currently, the liability of the District is limited under this act to money damages in a maximum amount of \$100,000 for each person, \$300,000 for each single occurrence for bodily injury or death, and \$100,000 for each single occurrence for injury to or destruction of property.

**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** . . . The Bonds. Section 271.051, Texas Local Government Code, provides that the Bonds are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the sinking funds of municipalities, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, municipalities, school districts, and other political subdivisions of the State, and are legal security for those deposits to the extent of their market value.

General Considerations. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the PFIA, the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. 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.

**LEGAL OPINION . . .** The District will furnish to the Underwriters 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 Texas approving the Initial Bond and 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, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. Though it may represent the Underwriters 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 was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions “PLAN OF FINANCING – Refunded Bonds,” “THE BONDS” (exclusive of subcaptions “DTC Redemption Provisions”, “Book-Entry-Only System” and “Bondholders’ Remedies”), “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” (exclusive of the subcaption “Compliance with Prior Undertakings”) and the subcaptions “Legal Opinions” (excluding the last two sentences of the first paragraph thereof), “Registration and Qualification of Bonds for Sale” and “Legal Investments and Eligibility to Secure Public Funds in Texas” under the caption “OTHER INFORMATION” in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate 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 opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fees of such firm are contingent upon the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of 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.

**FINANCIAL ADVISOR . . .** Specialized Public Finance Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

**UNDERWRITING . . .** The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$133,099.00. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

**FORWARD-LOOKING STATEMENTS DISCLAIMER . . .** 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. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

**MISCELLANEOUS . . .** 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. There is no guarantee that any of the assumptions or estimates contained herein will be realized. 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.

The Bond Order delegated to the Pricing Officer the authority to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

This Official Statement has been approved by the Pricing Officer for distribution in accordance with the provisions of Rule 15c2-12.

MARTIN COUNTY HOSPITAL DISTRICT

By: Nancy D. Cooke

SCHEDULE OF REFUNDED BONDS

Combination Limited Tax and Revenue Bonds, Series 2011A

Original Dated Date	Original Maturity <sup>(1)</sup>	Interest Rates	Principal Amount
3/1/2011	4/1/2022	6.750%	\$ 220,000
	4/1/2023	6.750%	240,000
	4/1/2024	6.750%	255,000
	4/1/2025	6.750%	275,000
	4/1/2026	6.750%	300,000
	4/1/2022	7.000%	220,000
	4/1/2023	7.000%	235,000
	4/1/2024	7.000%	250,000
	4/1/2025	7.000%	265,000
	4/1/2026	7.000%	285,000
	4/1/2027	7.000%	425,000
	4/1/2028	7.000%	450,000
	4/1/2029	7.000%	485,000
	4/1/2030	7.000%	530,000
	4/1/2031	7.000%	565,000
	4/1/2022	7.250%	215,000
	4/1/2023	7.250%	230,000
	4/1/2024	7.250%	245,000
	4/1/2025	7.250%	270,000
	4/1/2026	7.250%	290,000
	4/1/2027	7.250%	520,000
	4/1/2028	7.250%	565,000
	4/1/2029	7.250%	605,000
	4/1/2030	7.250%	645,000
	4/1/2031	7.250%	700,000
	4/1/2032	7.250%	1,365,000
	4/1/2033	7.250%	1,460,000
	4/1/2034	7.250%	1,575,000
	4/1/2035	7.250%	1,695,000
	4/1/2036	7.250%	1,820,000
			\$ 17,200,000

Redemption Date: 6/15/2021  
Redemption Price: 100%

(1) Term Bonds.



**APPENDIX A**

**General Information Regarding the District**

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## THE DISTRICT

### GENERAL

Martin County Hospital District (the "District") was organized in 1967 and has boundaries coterminous with Martin County, Texas (the "County"), which is located in the west central portion of the State of Texas (the "State"). The City of Stanton, Texas (the "City") is the county seat, and accounts for approximately 52% of the population of the County. The City is located 20 miles east of Midland, Texas, 20 miles west of Big Spring, Texas, 106 miles south of Lubbock, Texas and 290 miles west of Fort Worth, Texas. The County's current population is approximately 4,979, an increase of 4.9% over the 2000 census. See "THE COUNTY, herein.

Martin County Hospital (the "Hospital") is an 18 licensed bed, Critical Access Hospital managed by the District and located in the City. It is the only Hospital in the County. The primary service area of the Hospital is the County. See "Service Area and Competition" herein. The Hospital provides acute patient care services, inpatient rehabilitation services, outpatient diagnostic imaging and other services as described under the heading "SERVICES" herein. The Hospital has been designated a Critical Access Hospital and such designation allows the Hospital to be eligible for cost based reimbursement from the Medicare programs based on the proportion of patients it serves in those programs.

### GOVERNANCE

The District has financial and operational oversight responsibility for the Hospital. The Hospital is governed by a six member Board of Hospital Managers (the "Board") who are appointed by the Martin County Commissioners Court to serve staggered two-year terms, with three managers appointed each year. Board members are "public officers" under the Texas Constitution who as a body exercise sovereign functions of government independent of control of others, and serve without pay. The Board has regular meetings monthly.

### SERVICES

The Hospital provides a full range of services consistent with its role as a regional acute care general hospital, including a wide range of secondary diagnostic and treatment services. The services currently offered at the Hospital include the following:

Inpatient		Outpatient	
Operating Room	Central Supply	Operating Room	Pharmacy
Anesthesiology	Pharmacy	Anesthesiology	Rural Health Clinic
Radiology Medicine	Clinic	Radiology Medicine	Emergency Room
Laboratory	Emergency	Laboratory	Observation
Blood	Observation	Blood	Ambulance
Respiratory Therapy	Ambulance	Respiratory Therapy	Professional Fee
Physical Therapy		Physical Therapy	Home Health
		Central Supply	

## THE COUNTY

The District's boundaries are coterminous with the County, which is located in west Texas. The following is general information concerning the economic and demographic conditions in the County and the State. In addition, the following provides information for the area comprising the County unless otherwise stated. It is provided so that prospective investors have an overview of the general economic conditions in the vicinity of the District. The information presented was obtained from the sources indicated, but is not guaranteed as to accuracy or completeness by the District or the Underwriters.

### TRANSPORTATION

The County is traversed by Interstate Highway 20 and State Highways 137, 176 and 349.

### RECREATION

The County contains the Martin County Historical Museum which features County history, including exhibits regarding Native Americans and Catholic heritage, cowboy artifacts and pictures, history of oil and railroad activities and development in the County.

### POPULATION

The County's 2010 U.S. Census Bureau population was 4,799, and the estimated 2020 population was 5,771.

## MARTIN COUNTY EMPLOYMENT STATISTICS

	February,	Annual Averages			
	2021	2020	2019	2018	2017
Civilian Labor Force	2,501	2,546	2,814	2,769	2,524
Total Employment	2,332	2,391	2,740	2,700	2,442
Total Unemployment	169	155	74	69	82
Percent Unemployment	6.8%	6.1%	2.6%	2.5%	3.2%

**APPENDIX B**

**Financial Statement of the District  
For the Year Ended April 30, 2020**

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## INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors  
Martin County Hospital District  
Stanton, Texas

We have audited the accompanying statements of net position of Martin County Hospital District (the "District"), as of April 30, 2020 and 2019, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements.

### **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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Martin County Hospital District, as of April 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 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.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
March 29, 2021



**MARTIN COUNTY HOSPITAL DISTRICT  
STANTON, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE YEARS ENDED  
APRIL 30, 2020 AND 2019**

**MARTIN COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019  
UNAUDITED**

Our discussion and analysis of Martin County Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended April 30, 2020 and 2019. Please read it in conjunction with the District's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- The District's net position increased in 2020 by \$8,273,522 or 26.8%, and increased by \$6,334,673 or 25.8% in 2019.
- The District reported operating losses in both 2020 and 2019 of \$10,252,005 and \$7,433,302, respectively. The operating loss in 2020 had an unfavorable increase of \$2,818,703 or 37.9% over 2019. The operating loss in 2019 had an unfavorable increase of \$875,152 or 13.3% over 2018.
- Non-operating revenues and expenses increased by \$4,803,636 or 35.1%, and \$3,368,732 or 32.6% in 2020 and 2019, respectively.

**USING THIS ANNUAL REPORT**

The District's financial statements consist of three statements, a Statements of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

**The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position**

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

**MARTIN COUNTY HOSPITAL DISTRICT  
 UNAUDITED  
 MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
 AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

**THE DISTRICT’S NET POSITION**

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 1. The District’s net position increased by \$8,273,522 in 2020, and increased by \$6,334,673 in 2019, as you can see from **Table 1**.

**Table 1: Assets, Liabilities, and Net Position**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:			
Current Assets	\$28,130,364	\$21,991,960	\$15,467,338
Capital Assets (net)	26,990,913	27,775,612	28,534,972
Other Non-Current Assets	2,746,838	1,354,609	981,933
Deferred Outflows of Resources	<u>326,667</u>	<u>366,667</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$58,194,782</u>	<u>\$51,488,848</u>	<u>\$44,984,243</u>
Liabilities:			
Long-Term Debt Outstanding	\$17,602,148	\$18,228,399	\$18,653,165
Other Current and Non-Current	<u>1,421,107</u>	<u>2,362,444</u>	<u>1,767,746</u>
Total Liabilities	<u>19,023,255</u>	<u>20,590,843</u>	<u>20,420,911</u>
Total Net Position	<u>39,171,527</u>	<u>30,898,005</u>	<u>24,563,332</u>
Total Liabilities and Net Position	<u>\$58,194,782</u>	<u>\$51,488,848</u>	<u>\$44,984,243</u>

**MARTIN COUNTY HOSPITAL DISTRICT  
UNAUDITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

**OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION**

In 2020, the District's net position increased by \$8,273,522 or 26.8%. In 2019, the District's net position increased by \$6,334,673 or 25.8%.

**Table 2: Operating Results and Changes in Net Position**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Net Patient Service Revenue	\$17,654,638	\$17,885,329	\$14,641,939
Other Revenue	1,206,359	823,345	630,705
Total Operating Revenue	<u>18,860,997</u>	<u>18,708,674</u>	<u>15,272,644</u>
Operating Expenses:			
Salaries and Benefits	16,445,342	14,593,262	12,282,312
Other Operating Expenses	10,544,345	9,690,169	8,027,596
Depreciation and Amortization	2,123,315	1,858,545	1,520,886
Total Operating Expenses	<u>29,113,002</u>	<u>26,141,976</u>	<u>21,830,794</u>
Operating Loss	(10,252,005)	(7,433,302)	(6,558,150)
Nonoperating Revenues and Expenses:			
Property Tax Revenue	19,284,590	14,959,545	11,809,924
Payments in Lieu of Property Tax	-	-	73,800
Noncapital Grants and Contributions	5,221	9,772	4,924
Investment Income	51,351	11,548	647
Interest Expense	(1,399,803)	(1,402,372)	(1,565,052)
COVID-19 Federal Financial Assistance	510,195	-	-
Gain on Disposal of Assets	45,057	114,482	-
Total Nonoperating Revenue and Expenses	<u>18,496,611</u>	<u>13,692,975</u>	<u>10,324,243</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	8,244,606	6,259,673	3,766,093
Capital Grants and Contributions	<u>28,916</u>	<u>75,000</u>	<u>75,000</u>
Increase in Net Position	8,273,522	6,334,673	3,841,093
Net Position, Beginning of Year	<u>30,898,005</u>	<u>24,563,332</u>	<u>20,722,239</u>
Net Position, End of Year	<u>\$ 39,171,527</u>	<u>\$ 30,898,005</u>	<u>\$ 24,563,332</u>

**MARTIN COUNTY HOSPITAL DISTRICT  
UNAUDITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

**Operating Losses**

The first component of the overall change in the District's net position is its operating loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's entire operating history. In 2020, the District reported an operating loss of \$10,252,005 compared to an operating loss of \$7,433,302 in 2019.

The primary components of the increase in operating loss in 2020 are:

- Decrease in net patient service revenue of \$230,691 or 1.3%.
- Increase in salaries and benefits of \$1,852,080 or 12.7%.
- Increase in professional fees and purchased services of \$312,530 or 6.5%.

The primary components of the increase in operating loss in 2019 are:

- Increase in salaries and benefits of \$2,310,950 or 18.8%.
- Increase in other operating expenses of \$1,662,573 or 20.7%.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied by the District and interest expense. In 2020, the tax rate was decreased to \$0.203 from \$0.275 in 2019. Property tax revenues, net of related fees in 2020 and 2019 were \$19,284,590 and \$14,959,545, respectively.

**Grants, Contributions, and Endowments**

The District receives both capital and noncapital grants from various state and federal agencies for specific programs. Capital and noncapital grant revenue recognized in 2020 was \$34,137, compared to \$84,772 in 2019.

**THE DISTRICT'S CASH FLOWS**

Changes in the District's cash flows are consistent with changes in operating losses and non-operating revenues and expenses, discussed earlier.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At April 30, 2020 and 2019, the District had \$26,990,913 and \$27,775,612, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 of the financial statements. In 2020 and 2019, the District acquired capital assets of \$1,361,487 and \$944,954, respectively.

**MARTIN COUNTY HOSPITAL DISTRICT  
UNAUDITED  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019  
CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Debt**

As of April 30, 2020 and 2019, the District had \$17,602,148 and \$18,228,399, respectively, in long-term debt outstanding, as detailed in Note 9 of the financial statements. During fiscal years 2020 and 2019, the District made principal payments of \$652,675 and \$636,024, respectively, on outstanding debt.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, 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 any questions about this report or need additional financial information, contact the administration office at Martin County Hospital District, P.O. Box 640, Stanton, TX 79782.

**MARTIN COUNTY HOSPITAL DISTRICT  
STANTON, TEXAS**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
APRIL 30, 2020 AND 2019**

# MARTIN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

AS OF APRIL 30, 2020 AND 2019

ASSETS:	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$22,676,709	\$15,315,553
Patient Accounts Receivable, Net of Allowance	2,149,365	3,056,479
Estimated Third-Party Payor Settlements	1,636,531	1,073,537
Inventory of Supplies	624,156	531,673
Prepaid and Other Current Assets	526,305	1,139,480
Property Taxes Receivable	<u>517,298</u>	<u>875,238</u>
Total Current Assets	28,130,364	21,991,960
RESTRICTED ASSETS		
Capital Improvements	63,102	63,102
Debt Service	<u>2,683,736</u>	<u>1,291,507</u>
Total Restricted Assets	2,746,838	1,354,609
CAPITAL ASSETS		
Land	733,247	796,119
Construction-in-Progress	151,109	28,438
Depreciable Capital Assets, Net	<u>26,106,557</u>	<u>26,951,055</u>
Total Capital Assets, Net	<u>26,990,913</u>	<u>27,775,612</u>
Total Assets	57,868,115	51,122,181
DEFERRED OUTFLOWS OF RESOURCES		
Excess Consideration Provided for Acquisition of Home Health Agency	<u>326,667</u>	<u>366,667</u>
Total Assets and Deferred Outflows of Resources	<u>\$58,194,782</u>	<u>\$51,488,848</u>

The accompanying notes are an integral part of these financial statements.



# MARTIN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

AS OF APRIL 30, 2020 AND 2019

<b>LIABILITIES AND NET POSITION:</b>	<u>2020</u>	<u>2019</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 679,734	\$ 634,085
Accounts Payable	275,197	792,518
Accrued Payroll, Benefits, and Related Liabilities	887,219	1,256,103
Other Accrued Liabilities	<u>258,691</u>	<u>313,823</u>
Total Current Liabilities	2,100,841	2,996,529
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	<u>16,922,414</u>	<u>17,594,314</u>
Total Liabilities	19,023,255	20,590,843
<b>NET POSITION</b>		
Net Investment in Capital Assets	9,388,765	9,547,213
Restricted:		
For Capital Improvements	63,102	63,102
For Debt Service	2,683,736	1,291,507
Unrestricted	<u>27,035,924</u>	<u>19,996,183</u>
Total Net Position	<u>39,171,527</u>	<u>30,898,005</u>
Total Liabilities and Net Position	<u>\$58,194,782</u>	<u>\$51,488,848</u>

The accompanying notes are an integral part of these financial statements.

# MARTIN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 17,654,638	\$ 17,885,329
Other Revenue	<u>1,206,359</u>	<u>823,345</u>
Total Operating Revenues	18,860,997	18,708,674
OPERATING EXPENSES:		
Salaries and Wages	13,524,868	11,877,535
Employee Benefits	2,920,474	2,715,727
Professional Fees and Purchased Services	5,149,007	4,836,477
Supplies and Other	5,395,338	4,853,692
Depreciation and Amortization	<u>2,123,315</u>	<u>1,858,545</u>
Total Operating Expenses	<u>29,113,002</u>	<u>26,141,976</u>
Operating Loss	(10,252,005)	(7,433,302)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	19,284,590	14,959,545
Noncapital Grants and Contributions	5,221	9,772
Investment Income	51,351	11,548
Interest Expense	(1,399,803)	(1,402,372)
COVID-19 Federal Financial Assistance	510,195	-
Gain on Disposal of Assets	<u>45,057</u>	<u>114,482</u>
Total Nonoperating Revenues (Expenses)	<u>18,496,611</u>	<u>13,692,975</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	8,244,606	6,259,673
Capital Grants and Contributions	<u>28,916</u>	<u>75,000</u>
Increase in Net Position	8,273,522	6,334,673
Net Position Beginning of Year	<u>30,898,005</u>	<u>24,563,332</u>
Net Position, End of Year	<u>\$ 39,171,527</u>	<u>\$ 30,898,005</u>

The accompanying notes are an integral part of these financial statements.

# MARTIN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from and on Behalf of Patients	\$ 18,620,818	\$17,180,320
Other Receipts and Payments, net	1,203,215	823,689
Payments to Suppliers and Contractors	(11,117,014)	(9,511,778)
Payments to Employees	(16,907,065)	(14,324,602)
Net Cash Used by Operating Activities	<u>(8,200,046)</u>	<u>(5,832,371)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	51,351	11,548
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Grants and Contributions	28,916	75,000
Principal Payments on Long-Term Debt and Notes Payable	(652,675)	(636,024)
Interest Payments on Long-Term Debt and Notes Payable	(1,378,548)	(1,381,828)
Excess Consideration Provided for Acquisition of Home Health Agency	-	(400,000)
Proceeds From Sale of Capital Assets	107,928	178,418
Purchase of Capital Assets	(1,361,487)	(944,954)
Net Cash Used by Capital and Related Financing Activities	<u>(3,255,866)</u>	<u>(3,109,388)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Property Taxes	19,642,530	14,477,981
Noncapital Grants and Contributions	5,221	9,772
COVID-19 Federal Financial Assistance	510,195	-
Net Cash Provided by Noncapital Financing Activities	<u>20,157,946</u>	<u>14,487,753</u>
Net Increase in Cash and Cash Equivalents	8,753,385	5,557,542
Cash and Cash Equivalents, Beginning of Year	<u>16,670,162</u>	<u>11,112,620</u>
Cash and Cash Equivalents, End of Year	<u>\$ 25,423,547</u>	<u>\$16,670,162</u>

The accompanying notes are an integral part of these financial statements.

# MARTIN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS (CONTINUED)

**AS OF AND FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	2020	2019
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:</b>		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 22,676,709	\$15,315,553
Assets Restricted for Capital Improvements	63,102	63,102
Assets Restricted for Debt Service	2,683,736	1,291,507
	\$ 25,423,547	\$16,670,162
 <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (10,252,005)	\$ (7,433,302)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and Amortization	2,123,315	1,858,545
Provision for Bad Debts	2,721,416	782,574
(Increase) Decrease in:		
Accounts Receivable	(1,814,302)	(1,065,770)
Prepaid Expenses and Other Current Assets	520,692	(675,442)
Estimated Third-Party Payor Settlements	(562,994)	100,446
Increase (Decrease) in:		
Accounts Payable	(517,321)	210,885
Accrued Salaries and Benefits Payable	(368,884)	289,895
Other Accrued Liabilities	(49,963)	99,798
	\$ (8,200,046)	\$ (5,832,371)
 <b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Cost of New Equipment Under Capital Lease	\$ -	\$ 184,834
Bond Discount Amortization	\$ 26,424	\$ 26,424

The accompanying notes are an integral part of these financial statements.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
APRIL 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The Martin County Hospital District (the “District”), located in Stanton, Texas, is an acute care facility that was incorporated in 1967. The District is a political subdivision of the State of Texas, and its board members are selected by appointment by the County Commissioner. The District provides inpatient, outpatient, and emergency care services to the residents of Stanton, Texas.

**Enterprise Fund Accounting** – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-September 30, 1989 FASB and AICPA Pronouncements*. The District has also elected to apply the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**Newly Adopted Accounting Pronouncements:**

**GASB Statement No. 88** – Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for periods beginning after June 15, 2018.

**Pending Adoption of Recent Accounting Pronouncements:**

**GASB Statement No. 87** – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures. See GASB Statement No. 95 for notice of implementation postponement.

**GASB Statement No. 89** – In June 2018, GASB issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about the capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures. See GASB Statement No. 95 for notice of implementation postponement.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**GASB Statement No. 90** – In June 2018, GASB issued GASB Statement No. 90 – Majority Equity Interests. The objective of this Statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures. See GASB Statement No. 95 for notice of implementation postponement.

**GASB Statement No. 91** – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020. See GASB Statement No. 95 for notice of implementation postponement.

**GASB Statement No. 92** – In January 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases* to be effective for *fiscal years* beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Management is currently evaluating the effect this statement will have on the financial statements and related disclosure. See GASB Statement No. 95 for notice of implementation postponement.

**GASB Statement No. 95** – In May 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stake holders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for the periods beginning after June 15, 2018, or later.

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 90 has been postponed from reporting periods beginning after December 15, 2018 to reporting periods beginning after December 15, 2019.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - For purposes of the statement of cash flows, the District considers highly liquid investments with maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third party payers.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Patient Accounts Receivable** - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management’s judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management’s evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, and trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

**Inventory of Supplies** - Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

**Capital Assets** – Capital assets are carried at cost and include expenditures for improvements and betterments, which substantially increase the useful lives of existing plant and equipment. Maintenance, repairs, and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is credited or charged to income. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Donated assets are recorded at fair market value on the date of donation. The Hospital has elected to capitalize expenditures over \$2,500 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

The following are a range of useful lives used by asset class:

Land Improvements	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

**Net Position** – Net position of the District is classified into three components. Net investments in capital assets consist of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position, if any, is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

**Operating Revenues and Expenses** - For purposes of display, the District’s statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District’s principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.



**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Charity Care** - The District provides care to patients who meet certain criteria under its charity care policy, without charge or at amounts less than its established rates. Services eligible under its charity care policy are made available to patients on a sliding fee scale, in accordance with financial need, as determined in reference to Federal Poverty Levels (FPL) in effect at the time of the determination. Amounts the District will charge patients qualifying for financial assistance are based on patients whose family income is at or below 300% of the FPL are eligible to receive a 100% discount, and patients whose family income exceeds 300% of the FPL may be eligible to receive discounted rates on a case-by-case basis based on their specific circumstances, such as catastrophic illness or medical indigence, at the discretion of the District; however, the discounted rates shall not be greater than the amounts generally billed to commercially insured or Medicare patients. Because the District does not pursue collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**Property Taxes** – The District levies taxes as provided under state law on properties within the District. These taxes are collected by the Martin County Appraisal District and are remitted to the District when received. The District’s taxes are levied and become collectible from October 1 to January 31 of the succeeding year. The taxes are based on the assessed values listed as of the prior January 1, which is the due date a lien attaches to the taxable property. Property tax revenues are recognized when they become available. Allowances are provided for delinquent taxes.

**Federal Income Taxes** - The District is a political subdivision under the laws of the State of Texas, and therefore, is exempt from federal and state income taxes pursuant to Section 115 of the Internal Revenue Code and a similar provision of state law.

**Grants and Contributions** – From time to time, the District receives grants from the federal government as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Risk Management** - The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Reclassifications** – Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation. These reclassifications had no effect on the change in net position.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 2 - NET PATIENT REVENUE**

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare and Medicaid** – The District is a Critical Access Hospital. Thus, inpatient acute care services, certain inpatient non-acute care services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

**Other** - The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**Charity Care** - The value of charity care provided by the District based upon its established rates, was approximately \$2,607,059 in 2020 and \$2,294,853 in 2019. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District’s cost of providing charity care was approximately \$2,460,000 and \$2,070,000 for the years ended April 30, 2020 and 2019, respectively.

Net patient service revenue is comprised as follows:

	<u>2020</u>	<u>2019</u>
Routine Patient Services	\$ 3,256,202	\$ 3,598,628
Ancillary Patient Services		
Inpatient	3,932,845	3,194,975
Outpatient	<u>25,585,560</u>	<u>22,144,352</u>
Gross Patient Service Revenue	32,774,607	28,937,955
Charity	(2,607,059)	(2,294,853)
Third-Party Contractual Adjustments	(10,712,805)	(9,337,990)
Provision for Bad Debts	(2,721,416)	(782,574)
Medicaid Supplemental Payments	<u>921,311</u>	<u>1,362,791</u>
Net Patient Service Revenue	<u>\$ 17,654,638</u>	<u>\$ 17,885,329</u>

**Estimated Third-Party Payor Settlements** - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The anticipated final settlement amounts from current and prior years’ cost reports are recorded in the financial statements as they are determined by the District. Estimated third-party payor settlements recorded in current assets at April 30, 2020 and 2019 are \$1,636,531 and \$1,073,537, respectively.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At April 30, 2020 and 2019, the bank and carrying amount of the District's deposits with financial institutions is categorized as follows:

	<u>2020</u>	<u>2019</u>
Amount insured by the FDIC	\$ 828,901	\$ 844,853
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	<u>25,236,789</u>	<u>15,777,121</u>
Total Bank Balance	<u>\$ 26,065,690</u>	<u>\$ 16,621,974</u>

**NOTE 4 – RESTRICTED ASSETS**

The composition of restricted assets at April 30, 2020 and 2019 is set forth in the following table:

	<u>2020</u>	<u>2019</u>
Held by trustee under indenture agreement:		
For Capital Improvements:		
Cash and Cash Equivalents	\$ 63,102	\$ 63,102
For Debt Service:		
Cash and Cash Equivalents	<u>2,683,736</u>	<u>1,291,507</u>
Total Restricted Assets	<u>\$ 2,746,838</u>	<u>\$ 1,354,609</u>

**NOTE 5 – PATIENT ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at April 30:

	<u>2020</u>	<u>2019</u>
Gross Accounts Receivable	\$ 7,547,010	\$ 7,476,884
Less: Allowance for Bad Debts	(4,748,482)	(3,552,192)
Allowance for Contractuals	<u>(649,163)</u>	<u>(868,213)</u>
Accounts Receivable, Net of Allowance	<u>\$ 2,149,365</u>	<u>\$ 3,056,479</u>

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 5 – PATIENT ACCOUNTS RECEIVABLE (CONTINUED)**

**Concentration of Credit Risk** - The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at April 30 is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	17%	21%
Medicaid	3%	8%
Other Third-Party Payors	22%	22%
Patients	<u>58%</u>	<u>49%</u>
Total	<u>100%</u>	<u>100%</u>

**NOTE 6 – ACQUISITION OF HOME HEALTH AGENCY**

On August 1, 2018, the District purchased TruLite Home Care, Inc., a home health agency. As a result of the purchase, the District recognized a deferred outflow of resources of \$400,000 for the excess consideration provided and established an attribution period for the deferred outflow of resources over a future reporting period of 10 years. During fiscal years 2020 and 2019, the District recognized amortization expense of \$40,000 and \$33,333, respectively. At April 30, 2020 and 2019, the remaining unamortized excess consideration was \$326,667 and \$366,667, respectively. The respective unamortized excess consideration is included within deferred outflows of resources in the statements of net position.

**NOTE 7 - TAXES RECEIVABLE**

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Taxes are reported as revenues in the period for which they are levied. Total tax revenue reported for 2020 and 2019, was \$19,284,590 and \$14,959,545, net of fees, respectively. As of April 30, 2020 and 2019, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2020</u>	<u>2019</u>
Taxes Receivable	\$ 652,706	\$ 899,329
Allowance for Uncollectible Taxes	(135,408)	(24,091)
Net Taxes Receivable	<u>\$ 517,298</u>	<u>\$ 875,238</u>

**MARTIN COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**APRIL 30, 2020 AND 2019**

**NOTE 8 – CAPITAL ASSETS**

The following is a summary of property, plant, and equipment at cost less accumulated depreciation:

	Balance 4/30/19	Additions	Reclass/ Retirements	Balance 4/30/20
Land	\$ 796,119	\$ -	\$ (62,872)	\$ 733,247
Building and Improvements	28,042,257	376,732	-	28,418,989
Equipment	12,517,436	862,084	102,320	13,481,840
Capital Leases	287,154	-	(102,320)	184,834
Construction in Progress	28,438	122,671	-	151,109
Totals at Historical Cost	41,671,404	1,361,487	(62,872)	42,970,019
Less Accumulated Depreciation for:				
Building and Improvements	(5,095,996)	(891,751)	-	(5,987,747)
Equipment	(8,738,954)	(1,154,596)	(23,875)	(9,917,425)
Capital leases	(60,842)	(36,967)	23,875	(73,934)
Total Accumulated Depreciation	(13,895,792)	(2,083,314)	-	(15,979,106)
Capital Assets, Net	<u>\$27,775,612</u>	<u>\$ (721,827)</u>	<u>\$ (62,872)</u>	<u>\$ 26,990,913</u>

  

	Balance 4/30/18	Additions	Reclass/ Retirements	Balance 4/30/19
Land	\$ 860,055	\$ -	\$ (63,936)	\$ 796,119
Building and Improvements	28,008,204	34,053	-	28,042,257
Equipment	11,065,454	907,623	544,359	12,517,436
Capital Leases	102,320	184,834	-	287,154
Construction in Progress	569,519	3,278	(544,359)	28,438
Totals at Historical Cost	40,605,552	1,129,788	(63,936)	41,671,404
Less Accumulated Depreciation for:				
Building and Improvements	(4,206,940)	(889,056)	-	(5,095,996)
Equipment	(7,849,997)	(888,957)	-	(8,738,954)
Capital leases	(13,643)	(47,199)	-	(60,842)
Total Accumulated Depreciation	(12,070,580)	(1,825,212)	-	(13,895,792)
Capital Assets, Net	<u>\$28,534,972</u>	<u>\$ (695,424)</u>	<u>\$ (63,936)</u>	<u>\$ 27,775,612</u>

The amount of construction in progress of \$151,109 and \$28,438 at April 30, 2020 and 2019, respectively, represents costs associated with a clinic renovation project. The project was placed on hold during fiscal year 2020 with expectations to resume during fiscal year 2021.

**MARTIN COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**APRIL 30, 2020 AND 2019**

**NOTE 9 – LONG-TERM DEBT**

A schedule of changes in the District’s long-term debt for April 30, 2020 and 2019 is as follows:

	Balance 4/30/2019	Additions	Reductions	Balance 4/30/2020	Due Within One Year
<b>Bonds Payable:</b>					
Series 2011 A	\$17,595,000	\$ -	\$ (140,000)	\$17,455,000	\$ 255,000
Series 2011 B	890,000	-	(475,000)	415,000	415,000
Bond Discounts	(422,801)	-	26,424	(396,377)	(26,245)
Total Bonds Payable	<u>18,062,199</u>	<u>-</u>	<u>(588,576)</u>	<u>17,473,623</u>	<u>643,755</u>
<b>Capital Lease:</b>					
PT Equipment	12,172	-	(12,172)	-	-
Hematology System	154,028	-	(25,503)	128,525	35,979
Total Capital Leases	<u>166,200</u>	<u>-</u>	<u>(37,675)</u>	<u>128,525</u>	<u>35,979</u>
<b>Total Long-Term Debt and Capital Leases</b>	<u><u>\$18,228,399</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (626,251)</u></u>	<u><u>\$17,602,148</u></u>	<u><u>\$ 679,734</u></u>
	Balance 4/30/2018	Additions	Reductions	Balance 4/30/2019	Due Within One Year
<b>Bonds Payable:</b>					
Series 2011 A	\$17,725,000	\$ -	\$ (130,000)	\$17,595,000	\$ 140,000
Series 2011 B	1,330,000	-	(440,000)	890,000	475,000
Bond Discounts	(449,225)	-	26,424	(422,801)	(26,245)
Total Bonds Payable	<u>18,605,775</u>	<u>-</u>	<u>(543,576)</u>	<u>18,062,199</u>	<u>588,755</u>
<b>Capital Lease:</b>					
PT Equipment	47,390	-	(35,218)	12,172	12,172
Hematology System	-	184,834	(30,806)	154,028	33,158
Total Capital Leases	<u>47,390</u>	<u>184,834</u>	<u>(66,024)</u>	<u>166,200</u>	<u>45,330</u>
<b>Total Long-Term Debt and Capital Leases</b>	<u><u>\$18,653,165</u></u>	<u><u>\$184,834</u></u>	<u><u>\$ (609,600)</u></u>	<u><u>\$18,228,399</u></u>	<u><u>\$ 634,085</u></u>

*Long-Term Debt* - The terms and due dates of the District’s long-term debt at April 30, 2020 and 2019 follows:

- Combination Limited Tax and Revenue Bonds – Series 2011 A and Series 2011 B (collectively referred to as the Bonds) with interest rates ranging from 6.75% to 8.0% and various term bonds due April 1, 2017, 2021, 2026, 2031, and 2036. Collateralized by a combination of continuing direct ad valorem tax and a pledge of the Hospital net patient service revenues.
- 5.05% capital lease obligation for PT equipment payable in monthly principal and interest payments of \$3,069, collateralized by equipment.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 9 – LONG-TERM DEBT (CONTINUED)**

- 8.20% capital lease obligation for a hematology system payable in monthly principal and interest payments of \$3,765, collateralized by equipment.

Scheduled principal and interest payments on long-term debt and payments on capital lease obligations are as follows:

For the Year Ending	Bonds Payable			Capital Lease Obligations	
	Principal	Interest	Total	Principal	Interest
April 30,					
2021	\$ 670,000	\$ 1,281,950	\$ 1,951,950	\$ 35,979	\$ 9,201
2022	655,000	1,231,275	1,886,275	39,041	6,139
2023	705,000	1,185,438	1,890,438	42,363	2,817
2024	750,000	1,136,113	1,886,113	11,142	153
2025	810,000	1,083,638	1,893,638	-	-
2026-2030	5,100,000	4,464,763	9,564,763	-	-
2031-2035	7,360,000	2,336,713	9,696,713	-	-
2036	1,820,000	131,950	1,951,950	-	-
	<u>17,870,000</u>	<u>12,851,838</u>	<u>30,721,838</u>	<u>128,525</u>	<u>18,310</u>
Unamortized Discounts	(396,377)	-	-	-	-
Total	<u>\$ 17,473,623</u>	<u>\$ 12,851,838</u>	<u>\$ 30,721,838</u>	<u>\$ 128,525</u>	<u>\$ 18,310</u>

**Bond indentures** – During the year ended April 30, 2012, the District issued Combination Limited Tax and Revenue bonds for a new site, construction and equipping new hospital facilities, demolishing and removal of old buildings, and paying costs of issuance. The bond covenants require the District to provide, in accordance with the Continuing Disclosure Agreement, an annual report with audited financial statements in accordance with GAAP to the Municipal Securities Rulemaking Board within 120 days after the end of each fiscal year, for as long as the tax revenue bonds are outstanding.

For the years ended April 30, 2020 and 2019, the District was not in compliance with the Continuing Disclosure Agreement. The bond covenants also require, as long as the bonds remain outstanding, the District agrees to conduct its business so that the District does not have less than 75 days cash on hand. For the years ended April 30, 2020 and 2019, the days cash on hand were 344 and 251, respectively.

**NOTE 10 - SECTION 1115 DEMONSTRATION WAIVER PROGRAM**

**Uncompensated Care** - The District participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District for the shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of \$625,591 and \$1,002,070, and received \$1,546,902 and \$2,364,861 for the years ended April 30, 2020 and 2019, respectively. The District recognized net revenue of \$921,311 and \$1,362,791 for the years ended April 30, 2020 and 2019, respectively. The respective net revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 10 - SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)**

**Delivery System Reform Incentive Program** – As part of the Section 1115 Demonstration Waiver Program, the District is eligible to receive incentive payments through the Delivery System Reform Incentive Payment Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. By participating in the DSRIP Program, the District provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the District provided intergovernmental transfers of \$164,577 and \$42,217 and received \$407,540 and \$97,907 for the years ended April 30, 2020 and 2019, respectively. The District recognized net revenue of \$242,963 and \$55,690 for the years ended April 30, 2020 and 2019, respectively.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**Litigation** - The District is from time to time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the District's financial position or results of operations.

**Malpractice Insurance** - The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported or unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term; however, no accrual for medical malpractice claims has been made in the accompanying financial statements.

**NOTE 12 – EMPLOYEE BENEFITS**

Beginning in May 2019, the District began providing a 457(b) retirement plan, Martin County Hospital District 457(b) Plan and Martin County Hospital District Supplemental Retirement Plan, available to all employees after two months of continuous service. The number of plan members during fiscal year April 30, 2020 and 2019 was 108 and 108, respectively. The District matched full-time individual employee contributions up to 5% on a discretionary basis. Retirement benefits equal the amount accumulated to each individual's credit as of the date of retirement. The District's retirement expense for the year ending April 30, 2020 and 2019 was \$347,112 and \$275,581, respectively. Total employee contributions for the year ending April 30, 2020 and 2019 were \$421,917 and \$382,173, respectively.



**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 13 – COVID-19 FEDERAL FINANCIAL ASSISTANCE**

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) appropriated funds to reimburse eligible healthcare providers for healthcare related expenses or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration (HRSA) through the Provider Relief Fund (PRF) program. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions.

- **Stimulus Phases 1-3** – By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the secretary to recoup some or all of the payment made from the Relief Fund. The District received PRF funds in the amount of \$510,195 during 2020.

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released January 15, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. If recipients do not expend PRF funds in full by the end of calendar year 2020, they will have an additional six months in which to use remaining amounts toward expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues. For the year ended April 30, 2020, the District incurred qualifying expenditures and recognized COVID-19 federal financial assistance revenue in the amount of \$510,195. The respective revenue is included within nonoperating revenues (expenses) in the accompanying combined statements of revenues, expenses and changes in net position.

**NOTE 14 – SUBSEQUENT EVENTS**

In May 2020, the US Department of Health and Human Services provided approximately \$3.6 million to the District from funds appropriated in the Public Health and Social Services Emergency Fund for provider relief ("Relief Fund") under Division B of Public Law 116-127. By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions including, but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

In July 2020, the District received insurance settlement proceeds in the amount of \$1,870,585 as a result of property damage caused to the hospital roof from a hail storm. The District is in the preliminary planning phase of a new roof replacement project. Total project cost and project completion date has yet to be determined.

**MARTIN COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
APRIL 30, 2020 AND 2019**

**NOTE 14 – SUBSEQUENT EVENTS (CONTINUED)**

The date to which events occurring after April 30, 2020, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is March 29, 2021, which is the date on which the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION**

Management and the Board of Directors  
Martin County Hospital District  
Stanton, Texas

We have audited the financial statements of Martin County Hospital District as of and for the years ended April 30, 2020 and 2019, and our report thereon dated March 29, 2021, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information on pages 21 through 25 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
March 29, 2021

**MARTIN COUNTY HOSPITAL DISTRICT  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE  
FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Routine Services		
Routine Services	\$ 3,256,202	\$ 3,598,628
Ancillary and Other Services		
Inpatient:		
Operating Room	\$ 93,426	\$ 36,041
Anesthesiology	78,400	77,100
Radiology and Nuclear Medicine	160,476	127,052
Laboratory	475,786	356,344
Blood	16,541	6,120
Respiratory Therapy	499,924	485,709
Physical Therapy	255,342	233,808
Central Supply	897,202	625,854
Pharmacy	1,066,010	1,067,166
Clinic	-	2,861
Emergency	140,930	62,464
Observation	248,808	104,202
Ambulance	-	10,254
Total Inpatient Ancillary Services	<u>\$ 3,932,845</u>	<u>\$ 3,194,975</u>

See accountants' report on other financial information.

**MARTIN COUNTY HOSPITAL DISTRICT  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE (CONTINUED)  
FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Outpatient:		
Operating Room	\$ 2,084,912	\$ 2,032,522
Anesthesiology	982,952	1,476,513
Radiology and Nuclear Medicine	1,050,422	1,835,499
Laboratory	2,292,993	3,347,395
Blood	10,923	34,427
Respiratory Therapy	148,392	219,687
Physical Therapy	744,486	789,034
Central Supply	284,135	534,393
Pharmacy	148,353	373,213
Rural Health Clinic	3,547,632	3,014,354
Emergency Room	8,531,977	5,923,755
Observation	1,369,844	435,101
Ambulance	1,488,847	1,101,520
Professional Fee	1,462,909	242,218
Home health	1,436,783	784,721
Total Outpatient Ancillary Services	<u>25,585,560</u>	<u>22,144,352</u>
 Gross Patient Revenue	 <u>\$ 32,774,607</u>	 <u>\$ 28,937,955</u>

See accountants' report on other financial information.

**MARTIN COUNTY HOSPITAL DISTRICT  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE (CONTINUED)  
FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Gross Patient Revenue	\$ 32,774,607	\$ 28,937,955
Deductions from Revenue:		
Charity	(2,607,059)	(2,294,853)
Third-Party Contractual Adjustments	(10,712,805)	(9,337,990)
Provision for Bad Debts	(2,721,416)	(782,574)
Medicaid Supplemental Payments	<u>921,311</u>	<u>1,362,791</u>
Total Deductions from Revenue	<u>(15,119,969)</u>	<u>(11,052,626)</u>
Net Patient Service Revenue	<u>\$ 17,654,638</u>	<u>\$ 17,885,329</u>
Other Revenue		
Tobacco Settlement	\$ 283,768	\$ 232,805
Delivery Reform Incentive Program	242,963	55,690
Employee Meals	113,031	108,029
Meal Revenue	67,904	88,674
340B Pharmacy Revenue	286,900	288,014
Miscellaneous	<u>211,793</u>	<u>50,133</u>
Total Other Revenue	<u>\$ 1,206,359</u>	<u>\$ 823,345</u>

See accountants' report on other financial information.

**MARTIN COUNTY HOSPITAL DISTRICT  
OPERATING EXPENSES (CONTINUED)  
FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Routine Services	\$ 2,403,950	\$ 2,121,634
Ancillary Services		
Operating Room	1,017,536	916,920
Anesthesiology	376,544	355,736
Radiology and Nuclear Medicine	626,630	670,620
Laboratory	1,511,248	1,473,545
Blood	492	-
Respiratory Therapy	197,487	218,076
Physical Therapy	687,376	513,104
Central Supply	1,073,169	939,912
Pharmacy	743,470	745,219
Clinic	2,938,744	2,313,264
Emergency	1,154,813	1,195,509
Ambulance	1,269,206	1,189,625
Home health	1,206,478	874,626
	<u>                    </u>	<u>                    </u>
Total Ancillary Services	\$ 12,803,193	\$ 11,406,156

See accountants' report on other financial information.

**MARTIN COUNTY HOSPITAL DISTRICT  
 OPERATING EXPENSES (CONTINUED)  
 FOR THE YEARS ENDED APRIL 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
General Services		
Operation of Plant	\$ 753,533	\$ 761,693
Housekeeping	722,412	662,368
Dietary	722,640	693,870
Total General Services	<u>2,198,585</u>	<u>2,117,931</u>
Administrative Services		
Salaries and Wages	1,920,171	1,818,600
Other Operating	282,782	122,886
Employee Benefits	3,114,632	2,855,752
Supplies	73,498	147,197
Purchased Services	1,568,689	1,704,690
Repairs and Maintenance	24,758	8,375
Medical Records	315,915	299,879
Nursing Administration	516,866	272,281
Rental Expense	379,966	325,400
Education	20,895	33,763
Travel and Seminars	86,890	230,937
Insurance	344,382	300,691
Legal and Accounting Fees	167,371	175,646
Marketing	114,014	136,655
Dues & Subscriptions	191,825	123,166
Collection Fees	461,305	81,792
Total Administrative Services	<u>9,583,959</u>	<u>8,637,710</u>
Depreciation and amortization	<u>2,123,315</u>	<u>1,858,545</u>
Total Operating Expenses	<u><u>\$ 29,113,002</u></u>	<u><u>\$ 26,141,976</u></u>

See accountants' report on other financial information.



**APPENDIX C**

**Form of Bond Counsel's Opinion**

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*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.*

MARTIN COUNTY HOSPITAL DISTRICT  
GENERAL OBLIGATION REFUNDING BONDS,  
SERIES 2021, DATED MAY 1, 2021,  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$15,275,000

AS BOND COUNSEL FOR THE ISSUER (the “Issuer”) of the Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which mature and bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates as stated in the text of the Bonds, with the Bonds being subject to redemption prior to maturity, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond No. T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and duly delivered in accordance with law; and that except as may be limited by laws applicable to the Issuer relating to governmental immunity, federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, which rights may be limited by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof 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”). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain covenants regarding the use and investment of the proceeds of the Bonds and the refunded bonds and the use of the property financed and refinanced therewith, and the certification by Specialized Public Finance Inc. verifying the sufficiency of the amounts deposited to pay the principal of and interest on the refunded bonds on their redemption date. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.



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.

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 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 an opinion 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 any 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.

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 a result and are not binding on the Internal Revenue Service (the "Service"). Rather, our 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 as to 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, might result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Very truly yours,

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**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES