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NEW ISSUE—BOOK-ENTRY-ONLY

NOT RATED

**PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 21, 2020**

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

**MITCHELL COUNTY HOSPITAL DISTRICT  
(A political subdivision of the State of Texas)**

**\$13,455,000\*  
GENERAL OBLIGATION BONDS, SERIES 2020**

**Dated Date: November 15, 2020**

**Due: February 15, as shown on page ii**

**Interest Accrual Date: Delivery Date**

**PAYMENT TERMS** . . . Interest on the \$13,455,000\* Mitchell County Hospital District General Obligation Bonds, Series 2020 (the "Bonds"), will accrue from the date of initial delivery to the Underwriter (the "Delivery Date"), will be payable on February 15 and August 15 of each year commencing February 15, 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, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof 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 (hereinafter defined) 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 UMB Bank, N.A., Dallas, Texas. (See "THE BONDS - Paying Agent/Registrar" herein).

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and laws of the State of Texas (the "State"), Chapter 286, Texas Health and Safety Code, an election held in the Mitchell County Hospital District (the "District") on May 4, 2019, and an order (the "Order") to be adopted by the Board of Directors of the District authorizing the issuance of the Bonds. The Bonds will constitute direct and voted obligations of the District, payable from the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the District, as provided in the Order. The District's combined ad valorem tax rate for both operations and maintenance and debt service cannot exceed \$0.75 per \$100 of taxable assessed valuation (fiscal year 2021 levy rate is \$.3839 per \$100 of taxable assessed valuation). (See "THE BONDS - Authority for Issuance" and "THE BONDS - Tax Rate Limitations" herein).

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) purchasing, equipping and constructing buildings or improvements for hospital purposes consisting of a new physical therapy facility at Mitchell County Hospital and a new nursing home located on the Mitchell County Hospital campus (collectively the "Project"), (ii) funding capitalized interest on the Bonds through September 15, 2021\*, and (iii) paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds. (See "THE BONDS - Plan of Finance" herein).

**RISK FACTORS** . . . Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption "RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

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**MATURITY SCHEDULES SHOWN ON THE PAGE ii**

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*The Bonds are offered for delivery when, as and if issued and received by the underwriter named below (the "Underwriter") and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "APPENDIX C - FORM OF BOND COUNSEL'S OPINION" attached hereto). Certain legal matters will be passed upon for the Underwriter by Winstead PC, San Antonio, Texas, as Counsel to the Underwriter. It is expected that the Bonds will be available for delivery through the facilities DTC on or about November 17, 2020\* (the "Delivery Date").*



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\*Preliminary, subject to change.

**\$13,455,000\* MITCHELL COUNTY HOSPITAL DISTRICT  
GENERAL OBLIGATION BONDS, SERIES 2020**

**Serial Bonds\***

<u>Maturity*</u>	<u>Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
February 15, 2023	\$205,000				
February 15, 2024	215,000				
February 15, 2025	225,000				
February 15, 2026	240,000				
February 15, 2027	250,000				
February 15, 2028	265,000				
February 15, 2029	280,000				
February 15, 2030	290,000				

\$1,710,000\* \_\_\_% Term Bond due February 15, 2035\*, Priced to Yield \_\_\_%, CUSIP Suffix: \_\_\_  
 \$2,250,000\* \_\_\_% Term Bond due February 15, 2040\*, Priced to Yield \_\_\_%, CUSIP Suffix: \_\_\_  
 \$2,950,000\* \_\_\_% Term Bond due February 15, 2045\*, Priced to Yield \_\_\_%, CUSIP Suffix: \_\_\_  
 \$4,575,000\* \_\_\_% Term Bond due February 15, 2051\*, Priced to Yield \_\_\_%, CUSIP Suffix: \_\_\_

(Interest will accrue from the Delivery Date)

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is 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 services provided by CGS. The District and the Underwriters do not take any responsibility for the selection or accuracy of the CUSIP numbers set forth above.

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2031\*, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof within a maturity, on February 15, 2030\*, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds – Optional Redemption”). Additionally, certain of the Bonds are subject to mandatory sinking fund redemption as more particularly described herein (see “THE BONDS – Mandatory Sinking Fund Redemption”).

<sup>(\*)</sup> Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), this document, as the same may be supplemented or corrected from time to time, may be treated as an “Official Statement” with respect to the Bonds described herein that has been “deemed final” by the District as of the date hereof (or of any supplement or correction) except for the omission of no more than the information permitted by Subsection (b)(1) of Rule 15c2-12.

This Official Statement, which includes the cover page and the appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such an offer, solicitation or sale.

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

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. 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” herein for a description of the District’s undertaking to provide certain information on a continuing basis.

THE DISTRICT AND THE UNDERWRITER MAKE NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES 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 FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. **INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.**

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER 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.

References to website 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 final official statement for purposes of, and as that term is defined in, Rule 15c2-12.

**DISTRICT OFFICIALS, STAFF & CONSULTANTS**

**Board of Directors**

<u>Directors</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Patty Pharis, President	12 years	11/23	Retired School Teacher
Cheryl Warren, Vice President	5 years	11/23	School Teacher
Marsha Rickard, Secretary	3 years	11/24	Retired Nursing Home Administrator
Jerry Reynolds, Board Member	14 years	11/23	Retired School Teacher
Helen Edwards, Board Member	.5 years	11/23	Retired Banker
Maria Rubio, Board Member	1 year	11/24	Business Owner
Thomas Moore, Board Member	1 year	11/24	Sherriff's Deputy

**Selected Administrative Staff**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Robbie Dewberry	Administrator and CEO	10 years
Michelle Gafford	CFO	7 years
Kim Jaramillo	Risk Manager	2 months

**Consultants, Advisors and Paying Agent**

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

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

Financial Advisor ..... D.A. Davidson & Co.  
Dallas, Texas

Paying Agent ..... UMB Bank, N.A.  
Dallas, Texas

For additional information regarding the District, please contact:

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Administrator and CEO  
Mitchell County Hospital  
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Colorado City, Texas 79512  
Phone: (325) 750-4014  
rdewberry@mitchellcountyhospital.com

or  
Craig R. Cunningham  
Senior Vice President  
D.A. Davidson & Company  
14241 Dallas Parkway, Suite 665  
Dallas, Texas 75254  
Phone: (972) 818-8059  
crcunningham@dadco.com

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**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.

- THE DISTRICT.....** The Mitchell County Hospital District (the “District”) is a political subdivision of the State of Texas, and the boundaries of the District are coextensive with the boundaries of the County of Mitchell, Texas. The District covers approximately 910 square miles. The District was created in August of 1967 and currently operates the Mitchell County Hospital in Colorado City, Texas. The District is governed by a seven-member Board of Directors (the “Board”) elected for four-year terms. The Board appoints the district administrator and chief executive officer (the “CEO”) to oversee the day-to-day operations of the District, and may delegate authority to the CEO to hire employees for the District. The Board also appoints to the hospital staff such doctors as it deems advisable and necessary, and employs such fiscal agents, accountants, architects, and additional attorneys as it deems proper. (See “INTRODUCTION – Description of the District” herein).
  
- THE BONDS.....** The Bonds mature on February 15 in each of the years and in the amounts shown on page ii of this Official Statement.
  
- PAYMENT OF INTEREST .....** Interest on the Bonds accrues from the Delivery Date, and is payable on February 15 and August 15 of each year commencing February 15, 2021, until maturity or prior redemption. (See “THE BONDS” herein).
  
- AUTHORITY FOR ISSUANCE .....** The Bonds are issued pursuant to the Constitution and laws of the State, in particular Chapter 286, Texas Health and Safety Code, an election held in the District on May 4, 2019, and the Order to be adopted by the Board of Directors of the District authorizing the issuance of the Bonds. (See “THE BONDS – Authority for Issuance” herein).
  
- SECURITY FOR THE BONDS .....** The Bonds constitute direct obligations of the District payable from the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the District, as provided in the Order. (See “THE BONDS – Security and Source of Payment” and “THE BONDS – Tax Rate Limitations” herein).
  
- REDEMPTION .....** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2031\*, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof within a maturity, on February 15, 2030\*, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds – Optional Redemption”). Additionally, certain of the Bonds are subject to mandatory sinking fund redemption as more particularly described herein (see “THE BONDS – Mandatory Sinking Fund Redemption”).
  
- TAX EXEMPTION .....** In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.
  
- PURPOSE.....** Proceeds from the sale of the Bonds will be used for the purposes of (i) purchasing, equipping and constructing buildings or improvements for hospital purposes consisting of a new physical therapy facility at Mitchell County Hospital and a new nursing home located on the Mitchell County Hospital campus (collectively the “Project”), (ii) funding capitalized interest on the Bonds through September 15, 2021\*, and (iii) paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds. (See “THE BONDS – Plan of Finance” herein).

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\* Preliminary, subject to change.

**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 of principal amount or integral multiples thereof. 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).

**PAYMENT RECORD .....** The District has never defaulted on payment of its tax-supported debt.

**DELIVERY .....** The Delivery Date of the Bonds to the Underwriter and subsequent exchange and delivery of the Bonds through the facilities of DTC is expected to occur on or about November 17, 2020\*.

**MUNICIPAL BOND RATING AND INSURANCE .....** The Bonds are non-rated. The District has not made an application for either a commitment for municipal bond guaranty insurance or a municipal bond rating on the Bonds.

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**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO  
  
\$13,455,000\*  
MITCHELL COUNTY HOSPITAL DISTRICT  
GENERAL OBLIGATION BONDS, SERIES 2020**

**INTRODUCTION**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$13,455,000\* Mitchell County Hospital District General Obligation Bonds, Series 2020 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order to be adopted on the date of sale of the Bonds by the board of directors (the "Board") of the Mitchell County Hospital District (the "District") which will authorize the issuance of the Bonds (the "Order").

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.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy 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 with boundaries coterminous with Mitchell County, Texas, is a political subdivision of the State of Texas, being a hospital district created in August, 1967 and began operation in existing facilities in Colorado City, Texas in October 1967. Prior to October 1967 the hospital was owned and operated by the City of Colorado City. In accordance with the provisions of Article IX, Section 9, of the Constitution of the State of Texas, legislation was enacted by the Texas Legislature which authorized the creation, establishment, maintenance, and operation of a hospital district within the state and with boundaries coextensive with the boundaries of Commissioners Precincts Nos. 1, 2, and 3 of Mitchell County, Texas, as such precincts were constituted on January 1, 1967, to be known as "Colorado City Hospital District" with such rights, powers and duties as provided in the Act. In 1973, legislation was adopted which permitted the annexation of Commissioners Precinct No. 4 of Mitchell County, Texas to the District. Such legislation also renamed the District the "Mitchell County Hospital District". The District is governed by a seven member Board of Directors (the "Board"). Directors are elected for staggered four year terms. The Board formulates operation policy for the District; an appointed Administrator is the chief executive officer. The District has authority to levy ad valorem taxes for maintenance and operation, and for debt service, subject to the limits stated in the Texas Constitution and Chapter 466, Acts of the 60<sup>th</sup> Legislature, Regular Session, 1967, as amended, now codified at Chapter 1062, Texas Special District Local Laws Code (the "Act"); the District's maximum tax rate is \$.75 per \$100 assessed valuation (See "THE BONDS - Tax Rate Limitation"). The District covers approximately 918 square miles. (See "APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT" attached hereto).

**RISK FACTORS**

**General**

The Bonds have not been rated by any rating agency, and the purchase of the Bonds involves significant risks that are not appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the District's ability to levy and collect tax revenues sufficient to pay principal of and interest on the Bonds as such becomes due.

**Infectious Disease Outbreak – COVID-19**

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. 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.

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\*Preliminary, subject to change

The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Due to a previous spike in COVID-19 cases, prior executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion.

The Governor has since issued a number of executive orders. These include, for example, the issuance on September 17, 2020 of Executive Order GA-30, which, among other things, provided further guidelines for the reopening of businesses and the maximum threshold level of occupancy related to such establishments.

Certain businesses, such as cybersecurity services, child care services, local government operations, youth camps, recreational programs, schools, and religious services, do not have the foregoing limitations. The Governor's order also states, 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-30 permits visits to nursing homes, state supported living centers, assisted living facilities, or long-term care facilities as determined through the guidance from the Texas Health and Human Services Commission. Executive Order GA-30 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 <https://gov.texas.gov/>.

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. Furthermore, the Texas and Mitchell County regional economies are significantly impacted by the performance of the oil and gas industry, which is also experiencing significant disruptions in the global markets. The dual impact of the COVID-19 Outbreak on economic conditions and the disruptions in the global oil markets could have a severe impact on the Mitchell County region and could cause negative impacts that are yet unknown. In addition, stock markets in the U.S. and globally have seen significant recent declines that have been attributed, among other things, to COVID-19 concerns.

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 "TAX INFORMATION".

### **District's Response to COVID-19 Outbreak**

In response to COVID-19, the District implemented a series of procedures and policies to prevent the spread of COVID-19 to patients and staff at the District. A few of the steps the District has taken to assure quality care:

- Established a designated area consisting of six rooms to treat any COVID-19 patients
- All patients must enter through the emergency room doors where medical personnel will ask a few questions (related to symptoms, and travel), and take your temperature. This initial screening allows the District to restrict access to those who are symptomatic.
- Employees can enter through the designated employee entrance (located between business offices and physical therapy). Employees will be screened.
- As always, cleaning to prevent the spread of infection is occurring throughout all of our care sites.
- Restricted visitation policy, only essential visitors (one designated caregiver, patient family one at a time). Visiting hours will be from 8:00 am. – 5:00 p.m., no one under the age of 18 or over the age of 65 will be permitted to enter into the hospital.
- The following services will be closed to in-person access until further notice:
  - o Administration – services are available by phone, and email.
  - o Cafeteria- Closed to the public.

### **COVID-19 Impact on District Operations**

The District is accepting patients into their swing bed program and surgeries are being performed. The District's numbers are down in inpatient stays but are up in swing bed, which provides the highest reimbursement. The District's ER has seen an uptick since the onset of COVID-19, but is still down by 3 percent from last year. For the year to date as of August 31, 2020, results from operations include negative impacts from COVID-19 due to lower volumes coupled with the delay or cancellation of all non-emergency and elective procedures to allow for additional acute care capacity for those impacted by COVID-19 and implemented restrictions on patient visitors. Such restrictions have impacted the District's utilization and patient service statistics.

Net operating revenues for the year to date as of August 31, 2020 are (12.8%) lower than the year to date budgeted amount. The District reported total operating expenses (3.00%) below expenses for the year to date as of August 31, 2020. The reduction in operating expenses can be attributed to a decrease in patient volume due to the delay and cancellation of all non-emergency and elective procedures. The District recorded a net loss from operations for the year to date as of August 31, 2020 in the amount of (\$2,554,109), but received a CARES Act stimulus payment (the "CARES Stimulus Payment") in the amount of \$2,006,688 to offset a significant portion of the net loss. The CARES Stimulus Payment is a grant of federal funds and if used in accordance with applicable guidelines, the CARES Stimulus Payment will not be subject to repayment. In an abundance of caution, the District has created a liability and a related cash reserve for the CARES Stimulus Payment in the amount of \$2,006,688 until such time as the single audit and federal audit are completed and a final determination on repayment has been obtained.

Shortly after the CARES Act was signed into law, the District made an application thru a Small Business Administration (“SBA”) eligible lender and obtained a \$2,347,000 paycheck protection program loan (the “PPP Loan”). The PPP Loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employee retention criteria are met and the funds are used for eligible expenses. The District expects to meet the employee retention criteria necessary to obtain full PPP Loan forgiveness thus the District has not created a liability and a related cash reserve for the PPP Loan.

The significant operational changes due to COVID-19 have impacted the District’s historical processes used to estimate some key judgments in the financial statements, such as patient receivables, net medical services revenue, and medical claims payable. The District has modified its process to provide the best estimate available, but the actual results could vary significantly for the amounts recorded. The District is unable to predict the totality of the financial implications of COVID-19 on its operations at this time. There are a number of variables that preclude a reliable projection under these circumstances, including how long the COVID-19 pandemic might last, how long social distancing directives and similar remedial initiatives might last, how quickly effective treatment is developed, how quickly normal operations might be restored after social distancing initiatives are relaxed, how much federal grant or loan forgiveness assistance will be provided to offset losses and whether the rate of infection might spike again after social distancing directives are relaxed.

### **Levy and Collection of Ad Valorem Taxes**

The Bonds are obligations of the District and are not obligations of the State of Texas (the “State”), Mitchell County, Texas, or any political subdivision other than the District. The Bonds are secured by a continuing 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” and “THE BONDS – Tax Rate Limitations” herein. The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District. The District’s limited tax is levied and collected both to pay for principal of and interest on the District’s general obligation indebtedness and to pay for the maintenance and operating expenses of the District. The District’s revenues include payments through different funding sources, including but not limited to payments made pursuant to Medicaid or Medicare or other government or private payment sources. Such sources of funding are subject to change. While the Bonds are a general obligation of the District, payable from ad valorem taxes, changes in funding sources for operations could have a negative impact on the District’s operating results. In the event sufficient taxes are not collected, the District’s ability to make timely payment of principal of and interest on the Bonds may be dependent on the District’s ability to enforce and liquidate its tax lien, which is a time-consuming process. The District makes no representation that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners.

### **No Ratings – Limited Secondary Market**

The District has not applied to have the Bonds rated by any nationally recognized bond rating company, and it does not expect to do so in the future.

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain financial and operating information, there can be no assurance that such information will be available to owners on a timely basis. The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating for the Bonds or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon the prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS”, interest on the Bonds could cease to be excluded from gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the District. In addition, it is possible that future changes in applicable federal tax laws could cause interest on the Bonds to be included in gross income for federal income taxation or could otherwise reduce the equivalent taxable yield of such interest and thereby reduce the value of the Bonds.

### **Tax Value Concentration**

As shown in “TABLE 2 – Taxable Assessed Valuations by Category” and “TABLE 5 – Ten Largest Taxpayers”, a significant percentage of the appraised value in the District is comprised of oil and gas industries and related business activities. Fluctuations in the price of oil and gas affect the market value of such properties and can result in changes in the taxable value of such properties. Adverse developments in economic conditions, especially in the oil and gas industries could adversely impact the businesses that own such properties and the tax values in the District. 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 to fund debt service payments from other resources, if available. See “THE BONDS – Bondholders’ Remedies” and “AD VALOREM TAXATION” in the Official Statement.

### **86th Texas Legislature**

During the 86<sup>th</sup> Regular Legislative Session, the Texas Legislature passed Texas S.B. 2, 86<sup>th</sup> Leg., R.S. (2019) (“SB2”), a law that materially changes ad valorem tax matters, including requiring rollback elections for maintenance tax increases, and other matters which may have an adverse impact on the District’s operations and, therefore, the marketability or value of the Bonds.

SB2 includes provisions that address the following goals as described by the Texas Senate Research Center: (1) lowering the rollback rate for maintenance and operations taxes from the existing eight percent (8%) for the largest taxing units in the State; (2) requiring a tax ratification election if the rollback rate is exceeded, eliminating the petition requirement in the current statute; (3) making information about the tax rates proposed by local taxing units more accessible to property owners and more timely; and (4) making it easier for property owners to express their opinions about proposed tax rates to local elected officials before tax rates are adopted. Specifically, with respect to hospital districts such as the District, SB2 classifies hospital districts as “special taxing units;” therefore, under SB2 the District maintains a rollback rate of 8%, but is now required to have an election to ratify the adoption of a tax rate in excess of the rollback rate.

## **Approval of the Bonds**

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas, however, does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

## **Health Care Reform Legislation**

The current structure of the Texas Indigent Health Care and Treatment Act does not effectively or equitably address the uninsured problem in Texas. As a result, the District and other urban hospital districts in the State of Texas disproportionately support the uninsured through higher health care ad valorem taxes for maintenance and operations purposes.

The enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “ACA”) has had a significant impact on the U.S. health system. In June 2012, the U.S. Supreme Court upheld most provisions of the ACA, including the “individual mandate” that requires individuals to obtain health coverage, qualify for an exemption, or pay a tax penalty. Although the ACA expanded Medicaid for low income uninsured persons, the Medicaid expansion was made optional for States by the 2012 U.S. Supreme Court ruling. Texas remains one of 14 states that has not expanded Medicaid under the ACA.

The ACA has been subjected to continuing legal challenges since its enactment, including efforts to repeal the law and replace it with alternate legislation. Although no repeal and replace bills have been enacted, other legislative, judicial and executive actions have eliminated or adversely impacted key provisions of the ACA. The U.S. President has issued a number of Executive Orders intended to impede or delay implementation of the ACA, and to provide for the creation of alternative forms of health insurance exempt from the requirements of the ACA. In addition, the Tax Cut and Jobs Act (the “Tax Act”) enacted on December 22, 2017 included a provision reducing the penalty for failure to comply with the individual mandate to zero for tax years 2019 and beyond. In May 2019, the Congressional Budget Office estimated that repeal of the penalty will result in a reduction of 7 million individuals with health insurance by the end of 2021.

The 2012 U.S. Supreme Court ruling on the ACA upheld the individual insurance mandate based on Congress’s power of taxation. On December 14, 2018, a Texas federal District Court judge, in the case of *Texas v. Azar*, declared the ACA unconstitutional, reasoning that the individual mandate tax penalty was essential to and not severable from the remainder of the ACA. The case has been appealed to the U.S. Court of Appeals for the Fifth Circuit. A stay of the District Court’s judgment has been granted during the pendency of the appeal.

The ACA provided for reduced supplemental “DSH” payments from Medicare (i.e., payments received by those hospitals that care for a disproportionate share of low-income Medicare and Medicaid patients) starting in FY 2014. A portion of the Medicare DSH reduction was offset by new additional payments based on the volume of uninsured and uncompensated care provided by each such hospital. Separately, the ACA reduced Medicaid DSH allotments to each state, although implementation of the Medicaid DSH reductions has been delayed by multiple federal laws. Under the Bipartisan Budget Act of 2018 (the “BBA 2018”), the Medicaid DSH reductions will total approximately \$44 billion and be phased in over federal fiscal years 2020-2025. CMS published a final rule in September 2019 to implement the reductions, but Congress subsequently passed legislation to further delay the reductions. The Medicaid and CHIP Payment and Access Commission (“MACPAC”) estimates that for federal fiscal year 2020, federal funding for Medicaid DSH payments in Texas could be reduced by approximately 22%, a reduction of approximately \$450 million. MACPAC has recommended that Medicaid DSH reductions be spread over a longer period of time, through 2029.

Since federal fiscal year 2012, Texas hospitals have participated in funding pursuant to a Medicaid Section 1115 waiver (the “Waiver Program”) that preserved certain supplemental federal funding and expanded Medicaid managed care. On December 21, 2017, CMS approved a renewal of the Waiver Program through September 30, 2022. The terms of the renewal will result in a reduction of Waiver Program funding of at least \$2 billion over the course of the renewal period. Under the Waiver Program, in lieu of making Upper Payment Limit payments to hospitals, the State and federal government share in funding two payment pools — the Uncompensated Care (“UC”) Pool and the Delivery System Reform Incentive Payment (“DSRIP”) Pool — from which payment pools supplemental payments may be made to providers. The DSRIP program is intended to provide funding incentives to hospitals and other providers to enhance access to care for and the health of patients through the implementation of specifically approved projects and demonstrated achievement of defined milestones. Under the Waiver Program, hospitals make proposals to receive payments to defray costs of innovations in their delivery systems to achieve these goals. The UC program is intended to provide funding for hospitals and other providers to help offset the uncompensated care they provide to Medicaid and uninsured patients. Funding for UC depends on a local governmental entity such as the District providing intergovernmental transfers to the Texas Health and Human Services Commission (“HHSC”) as the State share, which is then matched by federal funds. Public entities have sole discretion to make or not make intergovernmental transfers.

Plans for a replacement of the DSRIP program have already been submitted to the State and negotiations for extending the Waiver Program beyond 2022 are beginning. Whether or not the Waiver Program is extended beyond 2022, it is important to note that District Certificates are payable and secured solely from a pledge of the ad valorem tax collections of the District and not from any Medicaid revenues received by the District for the delivery of health care services to Medicaid patients.

How continuing health reform measures may impact the District's business or financial condition is challenging to forecast. Changes in the numbers of individuals with health insurance, the demand for health care, and the availability and amount of governmental financing for health care could materially affect the District's business and financial condition. While there can be no assurances that future changes to laws, regulations and policies will not adversely impact the finances and operation of the District, the District's leadership has and continues to be significantly engaged and at the table in Texas healthcare policy discussions with the State.

### **Limitations on Remedies**

In the Order, the District has covenanted to levy an ad valorem tax sufficient to pay debt service on the Bonds and to continually operate the hospital so long as the Bonds remain outstanding. However, in the event of default, remedies available to the bondholders of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Order (as defined herein) to the extent that enforceability may be limited by laws applicable to the District relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by governmental immunity and general principles of equity which permit the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the bondholders. See "THE BONDS – Bondholders' Remedies" herein.

## **THE BONDS**

### **Description of the Bonds**

The Bonds are dated November 15, 2020, and mature on February 15 in each of the years and in the amounts shown on the page ii hereof. Interest on the Bonds will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months and will be payable initially on February 15, 2021 and on each February 15 and August 15 thereafter until stated maturity or prior redemption. The definitive Bonds will be issued only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof within a maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. 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). If the date for any payment on the Bonds shall be a Saturday, Sunday, legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The Bonds are tax-exempt obligations issued pursuant to the provisions of the Order. (See "TAX MATTERS" herein).

### **Authority for Issuance**

The Bonds are issued pursuant to the Constitution and laws of the State, Chapter 286, Texas Health and Safety Code, an election held in the District on May 4, 2019, and the Order to be adopted by the Board of the District authorizing the issuance of the Bonds.

### **Plan of Finance**

Proceeds from the sale of the Bonds will be used for the purposes of (i) purchasing, equipping and constructing buildings or improvements for hospital purposes consisting of a new physical therapy facility at Mitchell County Hospital and a new nursing home located on the Mitchell County Hospital campus (collectively the "Project"), (ii) funding capitalized interest on the Bonds through September 15, 2021\*, and (iii) paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds.

### **Security and Source of Payment**

The Bonds will constitute direct and voted obligations of the District payable from the levy and collection of an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the District, as will be provided in the Order. (See "THE BONDS – Tax Rate Limitations" herein).

### **Perfection of Security Interest**

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the ad valorem tax pledge thereto and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of ad valorem taxes are to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the District has agreed to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

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\*Preliminary, subject to change

## Tax Rate Limitations

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. Article IX, Section 9, of the Texas Constitution is applicable to the District, and limits its maximum ad valorem tax to \$0.75 per \$100 assessed valuation for all District purposes including maintenance and operations purposes and the payment of bonds secured by the tax. The District is currently levying a \$0.3839 per \$100 assessed valuation. (See TABLE 4 - Tax Rate, Levy and Collection History).

## Optional Redemption

The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2031\*, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof within a maturity, on February 15, 2030\*, or any date thereafter, at the par amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book- Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

## Mandatory Sinking Fund Redemption

The Bonds maturing on February 15 in the year[s] 2035, 2040, 2045, and 2051<sup>(1)</sup> (the "Term Bonds") are subject to mandatory sinking fund redemption in the amounts and at the price of par plus accrued interest to the redemption date on February 15, in the following years:

### Bonds Maturing February 15, 2035\*

Redemption Date	Principal Amount
February 15, 2031	\$
February 15, 2032	\$
February 15, 2033	\$
February 15, 2034	\$
February 15, 2035*	\$

### Bonds Maturing February 15, 2040\*

Redemption Date	Principal Amount
February 15, 2036	\$
February 15, 2037	\$
February 15, 2038	\$
February 15, 2039	\$
February 15, 2040*	\$

### Bonds Maturing February 15, 2045\*

Redemption Date	Principal Amount
February 15, 2041	\$
February 15, 2042	\$
February 15, 2043	\$
February 15, 2044	\$
February 15, 2045*	\$

### Bonds Maturing February 15, 2050\*

Redemption Date	Principal Amount
February 15, 2046	\$
February 15, 2047	\$
February 15, 2048	\$
February 15, 2049	\$
February 15, 2050*	\$

\*Final maturity

<sup>(1)</sup>Preliminary, subject to change

The Term Bonds to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of said Term Bonds of the respective maturity which, at least 45 days prior to the mandatory redemption date, (1) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District, or (2) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

### **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 BOND OR 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) the District retains the right to rescind such notice at any time 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 bondholders. Any Bonds subject to conditional redemption where redemption has been rescinded shall remain outstanding, and the rescission 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 Notices**

The Paying Agent/Registrar and the District, so long as the Book-Entry-Only System (described herein) is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant 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 an event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners. Any such selection of the Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. The District and the Paying Agent/Registrar have no responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (See "THE BONDS – Book-Entry-Only System" herein).

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid. In the Order the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar 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.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (See "THE BONDS – Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS – Book-Entry-Only System" herein; however, in the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined).

## **Amendments**

The Order provides that the District may from time to time, without the consent of any holder, except as otherwise required by the following paragraph, amend or supplement the Order in order to (i) cure any ambiguity, defect or omission in the Order 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 and that shall not materially adversely affect the interests of the holders, (v) 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 (iv) make such other provisions in regard to matters or questions arising under the Order as shall not be inconsistent with the provisions of the Order and that shall not in the opinion of Bond Counsel materially adversely affect the interests of the holders.

Except as provided in the paragraph above, the holders of Bonds aggregating in principal amount 51% of the aggregate principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment hereto that may be deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in aggregate principal amount of the then outstanding Bonds, nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of the Order or in any of the Bonds so as to: (1) make any change in the maturity of any of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (4) modify the terms of payment of principal or of interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

## **Defeasance**

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

Upon such deposit as described above, the Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption following their defeasance 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.

## **Book-Entry-Only System**

*This section describes how ownership of the Bonds is to be transferred and principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriters takes any responsibility for the accuracy or completeness thereof.*

*The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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 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 securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each stated maturity of Bonds, as set forth on page (ii) hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Payment of principal and interest 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 dates 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

**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 nor the Underwriters.

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

**Bondholders’ Remedies**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any of the covenants, conditions, or obligations of the District set forth in the Order which materially adversely affects the rights of the bondholders, including but not limited to their prospect or ability to be repaid in accordance with the Order and the continuance thereof for a period of sixty (60) days after notice of such default is given by any bondholder to the District, the Order provides that any bondholder is entitled to seek a writ of mandamus from a court of competent jurisdiction requiring the District officials to carry out their legally imposed duties with respect to the Bonds. 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 issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition. Accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the bondholders. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued,” in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is unclear whether the Texas legislature has effectively waived the District’s sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the bondholders cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

**Sources and Uses of Proceeds <sup>(1)</sup>**

Proceeds from the sale of the Bonds will be expended approximately as follows:

<b><u>Sources of Funds</u></b>	
Par Amount of Bonds	\$ -
Premium/(Discount)	-
	-----
Total Sources	\$ -
 <b><u>Uses of Funds</u></b>	
Deposit to Construction Fund	\$ -
Deposit to Capitalized Interest Fund	-
Cost of Issuance	-
	-----
Total Uses	\$ -

<sup>(1)</sup> Preliminary, subject to change.

## REGISTRATION, TRANSFER AND EXCHANGE

### Transfer, Exchange and Registration

So long as any Bond remains outstanding, the District shall cause the Paying Agent/Registrar to keep at its designated office a register (the "Register") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the Order. In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class postage prepaid, to the new registered owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

### Record Date for Interest Payment

The record date ("Record Date") for determining the person to whom the interest payable on the Bonds on any interest payment date means the close of business on the last Business Day of the month next preceding such interest payment date. The term "Business Day" means any day other than a Saturday, Sunday, legal holiday, or other day on which banking institution in the city where the designated office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close.

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

### Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to (i) Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty five days of the date fixed for redemption, provided such limitation of transfer shall not be applicable to exchanges by the registered Owner of an uncalled balance of a called Bond.

### Replacement Bonds

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

## AD VALOREM TAX INFORMATION

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property 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.*

### Ad Valorem Tax Law

The appraisal of property within the District is the responsibility of the Mitchell County Appraisal District (the "Appraisal District"). Excluding agricultural and qualified open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Property Tax Code 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 the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal. The method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead

for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the board of directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

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

Article VIII of the Texas Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

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

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

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

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

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem levied on the residence homestead of a disabled person or persons 65 years of age or older above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, the total amount of taxes imposed on such homestead cannot be increased except for improvements (other than repairs or improvements required to comply with governmental requirements) and such freeze is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established such freeze cannot be repealed or rescinded.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of such veteran or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2012, and subject to certain conditions, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Pursuant to a constitutional amendment approved by the voters on November 5, 2013 and legislation effective January 1, 2014, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability if the residence was donated at no cost to the veteran by a charitable organization. Also approved by voters on November 5, 2013 and effective January 1, 2014, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. On November 3, 2015, Texas voters approved an amendment to this law to provide for the exemption from ad valorem taxation for those surviving spouses of veterans who died before 2011, of which such amendment applies for the tax year beginning on or after January 1, 2016.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Non-income producing personal property is exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for “freeport property” to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for “goods-in-transit,” which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

A county or a municipality may utilize tax increment financing (“TIF”), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the “captured appraised value”) by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the county or municipality created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit’s tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit’s percentage level of participation.

In addition, the District may enter into tax abatement agreements with owners of property pursuant to Chapter 312, Texas Tax Code, as amended. Prior to entering into a tax abatement agreement, each taxing entity must adopt guidelines and criteria for establishing tax abatement, which each entity with taxing authority over the property will follow in granting tax abatement to owners of property. The tax abatement agreement may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement.

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM TAX INFORMATION – The Tax Code as Applied to the District” herein.

## **Public Hearing and Voter-Approval Tax Rate**

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.

“no-new-revenue tax rate” means the 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 rate that will produce the prior year’s maintenance and operation tax levy (adjusted) from the current year’s values (unadjusted) multiplied by 1.08, plus a rate that will produce the current year’s debt service from the prior year’s values (adjusted).

The District’s tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures in the current year (its “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (its “debt service tax rate”). Under State law, the assessor for the District must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the District to the governing body of the District by August 1 or as soon as practicable thereafter.

The governing body of the District must annually calculate and prominently post on its internet website, and submit to the District’s tax assessor-collector its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller of Public Accounts (the

“State Comptroller”). The governing body of the District must adopt a tax rate before the later of September 30 or the sixtieth (60<sup>th</sup>) day after the date the certified appraisal roll is received by the District, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the seventy-first (71<sup>st</sup>) 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.

A 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 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.

If a district’s adopted tax rate for any tax year exceeds the voter-approval tax rate, that district must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

**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.**

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.

**Levy and Collection of Taxes**

The District has elected to transfer the responsibility of collecting taxes to the Mitchell County Tax Assessor/Collector. By the later of September 30th or 60 days after the certified appraisal roll is delivered to the District, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Oil and gas reserves are assessed on the basis of a valuation process that uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years of age or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

**Penalties and Interest**

A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of one percent (1%) per month. Such charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, the District may add an additional penalty of up to twenty percent (20%) to the total tax, penalty, and interest charge as an attorney’s collection fee.

Under certain circumstances, taxes that become delinquent on the homestead of a taxpayer 65 years old or older incur interest of 8% per annum with no additional penalties or interest assessed. 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 the District and all other taxing entities. 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. The District has no lien for unpaid taxes on personal property but does have a lien for unpaid taxes upon real property, which lien is discharged upon payment. On January 1 of each year, such tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The District’s tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property taxes takes priority over the claims of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

### **The Tax Code as Applied to the District**

The District does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The District does not grant an additional exemption of 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

Ad valorem taxes are levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property; and Mitchell County Tax Assessor/Collector collects taxes for the District.

The District has not taken action to tax goods-in-transit or freeport property.

The District does not participate in any Tax Increment Financing Zones.

The voters of the District have not approved the collection of a sales and use tax in the District, which is permitted by Chapter 286, Texas Health & Safety Code.

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**Table 1 – Valuation, Exemptions and General Obligation Debt**

**Mitchell County Hospital District  
ASSESSED VALUATION <sup>(a)</sup>**

2020 Total Market Valuation.....	\$ 1,501,065,198
2020 Taxable Assessed Valuation (Net of Exemptions Identified Below).....	\$ 896,166,527

<u>Deductions</u>	<u>Exemptions</u>	<u>Total</u>
Productivity Loss.....		\$ 487,975,421
Homestead Cap.....		2,278,429
Residential Homestead.....		154,790
Over 65/Disabled/Veterans.....		1,940,742
Exempt Property.....		111,375,222
HB 366.....		220,357
Other.....		953,710
Total		\$ 604,898,671

**GENERAL OBLIGATION DEBT OUTSTANDING <sup>(b)</sup>**

Unlimited Tax Bonds Outstanding (as of the Delivery Date of the Bonds)	
Unlimited Tax General Obligation Refunding Bonds, Series 2010.....	\$ 570,000
The Bonds*.....	\$ 13,455,000
Less: Interest & Sinking Fund Balance (As of September 30, 2020).....	-
Net Unlimited Tax Debt.....	\$ 14,025,000
Ratio of Net GO Debt to Taxable Assessed Valuation .....	1.56%

<sup>(a)</sup> Source: Mitchell County Appraisal District

<sup>(b)</sup> Source: Hospital District Audited Financial Statements

\* Preliminary, subject to change

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**Table 2 – Taxable Assessed Valuations by Category**

**Mitchell County Hospital District  
CLASSIFICATION OF TAXABLE ASSESSED VALUATION BY USE CATEGORY**

	<b>Total Tax Roll for Fiscal Years</b>				
	<u>2020/21</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>	<u>2016/17</u>
Real Property					
Single-Family Residential	\$ 163,112,294	\$ 162,893,302	\$ 164,541,946	\$ 165,005,189	\$ 164,545,930
Multi-Family Residential	2,491,070	2,440,010	2,475,680	2,776,100	2,784,210
Vacant Lots/Tracts	5,433,079	5,535,149	5,535,336	5,544,054	4,879,090
Rural Real (Taxable)	623,110,795	622,000,279	621,801,422	566,372,226	565,951,281
Commercial and Industrial	118,616,277	134,882,784	155,053,223	187,181,795	220,656,917
Minerals	122,704,108	194,164,120	174,424,988	161,871,639	145,669,220
Tangible Personal Property					
Commercial	12,018,980	11,735,750	10,926,800	11,994,580	12,351,230
Industrial	23,113,370	22,847,710	23,200,910	22,338,720	13,720,410
Other	2,570,120	2,984,440	3,314,410	3,561,800	3,903,960
Real & Tangible Personal Property					
Pipeline Company	220,240,700	194,419,780	148,355,830	139,578,660	108,192,860
Railroad	24,033,290	22,846,110	21,972,950	20,698,910	19,457,360
Utilities	71,420,610	65,409,150	56,641,380	60,881,600	58,671,000
Totally Exempt Property	<u>112,200,505</u>	<u>113,354,988</u>	<u>114,376,494</u>	<u>114,945,815</u>	<u>115,764,841</u>
<b>Total Real &amp; Tangible Personal Property</b>	<b><u>\$ 1,501,065,198</u></b>	<b><u>\$ 1,555,513,572</u></b>	<b><u>\$ 1,502,621,369</u></b>	<b><u>\$ 1,462,751,088</u></b>	<b><u>\$ 1,436,548,309</u></b>
Less Deductions/Exemptions:					
Productivity Loss	\$ 487,975,421	\$ 486,068,275	\$ 481,775,456	\$ 436,128,666	\$ 435,419,429
Homestead Cap	2,278,429	3,672,043	6,093,015	7,590,558	11,436,938
Residential Homestead	154,790	18,256,128	22,309,128	56,232,988	65,938,760
Over 65/Disabled/Veterans	1,940,742	2,345,781	2,069,226	1,862,239	1,916,516
Exempt Property	111,375,222	112,334,462	113,424,414	114,092,699	115,346,445
HB 366	220,357	228,860	219,654	234,080	226,390
Other	953,710	1,140,450	1,120,190	830,320	791,350
<b>Total Deductions/Exemptions</b>	<b><u>\$ 604,898,671</u></b>	<b><u>\$ 624,045,999</u></b>	<b><u>\$ 627,011,083</u></b>	<b><u>\$ 616,971,550</u></b>	<b><u>\$ 631,075,828</u></b>
<b>Net Taxable Assessed Valuation</b>	<b><u>\$ 896,166,527</u></b>	<b><u>\$ 931,467,573</u></b>	<b><u>\$ 875,610,286</u></b>	<b><u>\$ 845,779,538</u></b>	<b><u>\$ 805,472,481</u></b>

Source: Mitchell County Appraisal District

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**ECONOMIC CONCENTRATION NOTE:** As shown above, a substantial amount of the District’ tax base is concentrated in the oil and gas industry. Oil and gas prices historically have been subject to fluctuation due to a multitude of factors. As a result, the District’s net taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District’s Bonds, may be subject to volatility in future years. Adverse developments in economic conditions, particularly in the oil and gas industry, could adversely impact the businesses of these taxpayers and the tax values in the District, resulting in less local tax revenue. If any of these taxpayers were to default in the payment of their taxes, the ability of the District to make timely payment of all or part of the debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax liens. See also “Table 5 – Ten Largest Taxpayers”.

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**Table 3 – Valuation and General Obligation Debt History**

<u>FYE 9/30</u>	<u>Tax Roll Yr</u>	<u>Estimated Population(1)</u>	<u>Taxable Assessed Valuation(2)</u>	<u>Taxable Assessed Valuation Per Capita</u>	<u>Tax Debt Outstanding at FYE</u>	<u>Ratio of Tax Debt to Taxable Assessed Valuation</u>	<u>Funded Debt Per Capita</u>
2016	2015	8,477	\$ 1,047,107,009	\$ 123,523	\$ 2,630,000	0.25%	\$ 310
2017	2016	8,232	\$ 805,472,481	\$ 97,847	\$ 2,145,000	0.27%	\$ 261
2018	2017	8,145	\$ 845,779,538	\$ 103,840	\$ 1,640,000	0.19%	\$ 201
2019	2018	8,145	\$ 875,610,286	\$ 107,503	\$ 1,120,000	0.13%	\$ 138
2020	2019	8,145	\$ 931,467,573	\$ 114,361	\$ 1,185,910	0.13%	\$ 146
2021	2020	8,545	\$ 896,166,527	\$ 104,876	\$14,025,000 (3)	1.56%	\$ 1,641

(1) Source: Municipal Advisory Council of Texas

(2) Source: Mitchell County Appraisal District, subject to change during the year

(3) Includes the Bonds. Preliminary, subject to change

**Table 4 – Tax Rate, Levy and Collection History**

<u>FYE 9/30</u>	<u>Total Tax Rate (1)</u>	<u>M&amp;O</u>	<u>Interest and Sinking Fund</u>	<u>Tax Levy</u>	<u>% Current Collections</u>	<u>% Total Collections</u>
2016	\$0.3017	\$0.2515	\$0.0502	\$3,146,594	99.0%	100.1%
2017	\$0.3957	\$0.3239	\$0.0718	\$3,181,238	98.5%	99.5%
2018	\$0.3783	\$0.3099	\$0.0684	\$3,232,103	98.4%	100.0%
2019	\$0.3677	\$0.3022	\$0.0655	\$3,212,192	97.9%	99.3%
2020	\$0.3646	\$0.3020	\$0.0626	\$3,388,320	96.8%	97.5%
2021	\$0.3839	\$0.3178	\$0.0661	\$3,435,672	In process of collection	

(1) Source: Mitchell County Appraisal District and the Municipal Advisory Council of Texas

**Table 5 – Ten Largest Taxpayers**

<u>Name of Taxpayer</u>	<u>Property Type</u>	<u>2020 NAV</u>	<u>% of Total</u>
Oncor Electric Delivery	Utility	\$ 68,171,260	7.61%
Sabinal Energy Operating LLC	Energy	45,374,901	5.06%
Loraine Windpark 3rd Planet	Wind Farm	42,389,050	4.73%
Roscoe Wind	Wind Farm	27,390,090	3.06%
West Texas LPG Pipeline	Oil&Gas	27,135,810	3.03%
Sunrise II Pipeline LLC	Oil&Gas	25,851,680	2.88%
Union Pacific RR Co	Railroad	24,084,910	2.69%
Permian Express Partners	Oil&Gas	23,871,770	2.66%
Lone Star NGL Pipeline	Oil&Gas	21,137,070	2.36%
Plains Pipeline LP	Oil&Gas	<u>20,951,390</u>	<u>2.34%</u>
TOTAL		\$ 326,357,931	36.42%

Source: Municipal Advisory Council of Texas

**ECONOMIC CONCENTRATION NOTE:** As shown above, several of the largest taxpayers in the District are concentrated in the oil and gas industries. Oil and gas prices historically have been subject to fluctuation due to a multitude of factors. As a result, the District’s taxable assessed valuation and, therefore, the tax rates required to pay debt service on the District’s bonds, may be subject to volatility in future years (see “Table 2 - Taxable Assessed Valuations by Category”). Adverse developments in economic conditions, particularly in the energy and oil and gas industries, could adversely impact the businesses of these taxpayers and the tax values in the District, resulting in less local tax revenue. If any of these taxpayers were to default in the payment of their taxes, the ability of the District to make timely payment of all or part of the debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax liens.

**Table 6 – Estimated Overlapping Debt**

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping debt was developed from information obtained from the Municipal Advisory Council of Texas, shown as of August 31, 2020. 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. Entities with no outstanding debt are not listed. Overlapping taxing entities may have issued additional tax-supported debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional tax-supported debt, the amount of which cannot be determined.

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Overlap%</u>	<u>Overlap\$</u>
City of Colorado City	\$ -	08/31/20	100.00%	\$ -
Colorado ISD	\$28,100,891	08/31/20	84.85%	23,843,606
Forsan ISD	\$15,470,000	08/31/20	2.06%	318,682
Ira ISD	\$10,355,000	08/31/20	2.94%	304,437
Loraine ISD	\$ 7,955,000	08/31/20	100.00%	7,955,000
City of Loraine	\$ 210,000	08/31/20	100.00%	210,000
Mitchell County	\$ 5,300,000	08/31/20	100.00%	5,300,000
Roscoe Collegiate ISD	\$ 5,320,000	08/31/20	2.97%	158,004
Westbrook ISD	\$ -	08/31/20	100.00%	-
Total Net Overlapping Debt				<u>\$ 38,089,729</u>
Mitchell County Hospital District <sup>(1)</sup>	\$14,025,000	08/31/20	100.00%	<u>14,025,000</u>
Total Direct and Overlapping Debt				<u><u>\$ 52,114,729</u></u>
Ratio Total Direct and Overlapping Debt to Taxable Assessed Valuation .....				5.82%
Ratio Total Direct and Overlapping Debt to Market Valuation .....				3.47%
Per Capita Overlapping GO Debt .....				\$ 6,099

<sup>(a)</sup> Source: Mitchell County Appraisal District  
<sup>(b)</sup> Source: District's Audited Financial Statement  
<sup>(c)</sup> Source: Municipal Advisory Council of Texas

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## DEBT INFORMATION

**Table 7 – Pro Forma General Obligation Debt Service Requirements <sup>(1)</sup>**

Fiscal Year	Series 2010	Principal	The Bonds* Interest	Cap I	Total
2021	581,115	-	493,920	(493,920)	581,115
2022	-	-	663,475	(55,290)	608,185
2023	-	205,000	658,350	-	863,350
2024	-	215,000	647,850	-	862,850
2025	-	225,000	636,850	-	861,850
2026	-	240,000	625,225	-	865,225
2027	-	250,000	612,975	-	862,975
2028	-	265,000	600,100	-	865,100
2029	-	280,000	586,475	-	866,475
2030	-	290,000	572,225	-	862,225
2031	-	305,000	556,778	-	861,778
2032	-	325,000	539,847	-	864,847
2033	-	340,000	521,975	-	861,975
2034	-	360,000	503,163	-	863,163
2035	-	380,000	483,275	-	863,275
2036	-	400,000	462,063	-	862,063
2037	-	425,000	439,375	-	864,375
2038	-	450,000	415,313	-	865,313
2039	-	475,000	389,875	-	864,875
2040	-	500,000	363,063	-	863,063
2041	-	530,000	335,400	-	865,400
2042	-	555,000	306,919	-	861,919
2043	-	590,000	276,863	-	866,863
2044	-	620,000	245,100	-	865,100
2045	-	655,000	211,631	-	866,631
2046	-	685,000	179,881	-	864,881
2047	-	715,000	150,131	-	865,131
2048	-	745,000	119,106	-	864,106
2049	-	775,000	86,806	-	861,806
2050	-	810,000	53,125	-	863,125
2051	-	845,000	17,956	-	862,956

<sup>(1)</sup> Preliminary, subject to change. Shown for informational purposes only. Final debt service is subject to bond pricing.

### Table 8 – Authorized but Unissued General Obligation Bonds

Following the issuance of the Bonds, the District will not have any voter authorized but unissued tax-supported debt. In addition to these types of debt obligations, however, the District is authorized to enter into personal property finance contracts and to issue obligations payable from the revenues of its hospital system.

The District does not anticipate the issuance of additional general obligation debt within the next twelve months.

### Table 9 – Other Obligations

The District has the following additional outstanding obligations as of the Delivery Date of the Bonds:

- 3.0 % Note payable with City National Bank, payable in monthly payments of principal and interest of \$20,656 through December 1, 2031, collateralized by building and contents.
- \$2,347,000 Paycheck Protection Program loan<sup>(1)</sup>

<sup>(1)</sup> This District reasonably expects this loan to be forgiven as result of compliance with applicable employee retention criteria.

### Retirement plan

The Mitchell County Hospital District Employees Pension Plan (the “Plan”) is a section 401(k) defined contribution retirement plan that covers substantially all employees meeting age and service requirements. Employee’s meeting the age and service requirements may contribute to the plan

and the District's matching contributions to the plan are discretionary. District contributions to the plan for 2019 and 2018 were \$147,920 and \$128,849, respectively.

## FINANCIAL INFORMATION

**Table 11 – Summary of Revenues, Expenses and Changes in Net Position**

	<b>Fiscal Years Ending September 30,</b>				
	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>
<b><u>Operating Revenues:</u></b>					
Net Patient Service Revenue	\$ 17,480,433	\$ 17,380,166	\$ 13,729,210	\$ 14,315,644	\$ 14,969,625
Premium Revenue	2,848,892	2,791,218	3,205,738	3,204,692	3,091,495
E.H.R. Incentive Payments	-	-	-	1,440	53,557
Other Revenue	1,045,456	730,574	722,692	493,481	2,106,937
<b>Total Operating Revenues</b>	<b><u>\$ 21,374,781</u></b>	<b><u>\$ 20,901,958</u></b>	<b><u>\$ 17,657,640</u></b>	<b><u>\$ 18,015,257</u></b>	<b><u>\$ 20,221,614</u></b>
<b><u>Operating Expenses:</u></b>					
Salaries	\$ 10,958,547	\$ 10,667,865	\$ 10,818,008	\$ 10,680,044	\$ 10,524,970
Employee Benefits	2,324,650	2,200,120	2,087,137	2,287,557	2,457,518
Professional Fees and Purchased Services	5,051,091	4,860,429	3,977,150	3,958,629	3,965,017
Supplies	2,057,372	2,090,702	1,945,209	1,995,251	2,100,311
Other Operating Expenses	1,715,213	1,739,160	1,725,494	1,737,915	1,576,955
Depreciation and Amortization	1,044,907	1,131,050	1,148,638	979,832	951,632
<b>Total Operating Expenses</b>	<b><u>23,151,780</u></b>	<b><u>22,689,326</u></b>	<b><u>21,701,636</u></b>	<b><u>21,639,228</u></b>	<b><u>21,576,403</u></b>
<b>Operating Income (Loss)</b>	<b>(1,776,999)</b>	<b>(1,787,368)</b>	<b>(4,043,996)</b>	<b>(3,623,971)</b>	<b>(1,354,789)</b>
<b><u>Non-Operating Revenues (Expenses):</u></b>					
Property Tax Revenue	3,162,450	3,246,093	3,093,741	3,014,651	2,990,341
Noncapital Grants and Contributions	70,564	101,796	89,457	63,758	79,919
Indigent Care Support	2,148,140	2,167,182	1,961,838	1,820,395	1,767,596
Intergovernmental Transfer	(1,595,400)	(1,649,770)	(1,389,274)	(1,253,399)	(1,392,589)
Investment Income	115,479	91,549	59,918	40,657	31,874
Interest Expense	(161,745)	(197,495)	(191,204)	(146,305)	(150,325)
Gain (Loss) on Disposal of Assets	16,646	13,421	2,582	(117,230)	341
<b>Total Non-Operating Revenue (Expenses)</b>	<b><u>3,756,134</u></b>	<b><u>3,772,776</u></b>	<b><u>3,627,058</u></b>	<b><u>3,422,527</u></b>	<b><u>3,327,157</u></b>
<b>Excess of Revenues Over Expenses Before Capital Grants and Contributions</b>	<b>1,979,135</b>	<b>1,985,408</b>	<b>(416,938)</b>	<b>(201,444)</b>	<b>1,972,368</b>
<b>Capital Grants and Contributions</b>	<b><u>16,884</u></b>	<b><u>7,909</u></b>	<b><u>80,276</u></b>	<b><u>125,000</u></b>	<b><u>50,000</u></b>
<b>Increase (Decrease) in Net Position</b>	<b>1,996,019</b>	<b>1,993,317</b>	<b>(336,662)</b>	<b>(76,444)</b>	<b>2,022,368</b>
<b>Net Position, Beginning of Year</b>	<b><u>16,517,695</u></b>	<b><u>14,524,378</u></b>	<b><u>14,861,040</u></b>	<b><u>14,937,484</u></b>	<b><u>12,915,116</u></b>
<b>Net Position, End of Year</b>	<b><u>18,513,714</u></b>	<b><u>16,517,695</u></b>	<b><u>14,524,378</u></b>	<b><u>14,861,040</u></b>	<b><u>14,937,484</u></b>

*Source: Hospital District Audited Financial Statements*

<sup>(1)</sup> The District's revenues include payments through different funding sources, including but not limited to payments made pursuant to Medicaid or Medicare or other government or private payment sources. Such sources of funding are subject to change. While the Bonds are a general obligation of the District, payable from ad valorem taxes, changes in funding sources for operations could have a negative impact on the District's operating results.

**Table 12 – Statements of Net Position**

	<b>Fiscal Years Ending September 30,</b>				
	<u><b>2019</b></u>	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
<b>ASSETS:</b>					
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 2,274,984	\$ 3,121,361	\$ 2,789,483	\$ 2,076,344	\$ 1,392,293
Short-Term Investments	1,521,673	274,033	272,669	271,313	1,546,601
Assets Whose Use is Limited	23,011	32,114	19,652	24,299	9,548
Patient Accounts Receivable, Net of Allowance	3,018,786	2,872,463	2,371,098	2,072,179	2,294,929
Estimated Third-Party Payor Settlements	674,610	-	-	858,043	383,192
Other Receivables	547,131	882,304	564,662	610,886	1,926,074
Inventory of Supplies	372,789	429,922	412,537	431,734	400,927
Prepaid and Other Current Assets	2,099,580	1,586,790	1,262,711	1,129,811	111,421
Property Taxes Receivable	<u>108,908</u>	<u>99,472</u>	<u>27,289</u>	<u>25,603</u>	<u>64,821</u>
<b>Total Current Assets</b>	<b>10,641,472</b>	<b>9,298,459</b>	<b>7,720,101</b>	<b>7,500,212</b>	<b>8,129,806</b>
<b>ASSETS WHOSE USE IS LIMITED - LONG TERM</b>	<b>2,754,141</b>	<b>2,775,499</b>	<b>2,960,028</b>	<b>2,976,651</b>	<b>2,511,415</b>
<b>CAPITAL ASSETS</b>					
Land	146,082	146,082	146,082	146,082	146,082
Construction-in-Progress	215,428	-	5,331	3,585,903	1,304,139
Depreciable Capital Assets, Net	<u>11,027,574</u>	<u>11,495,674</u>	<u>12,263,399</u>	<u>9,098,169</u>	<u>8,939,069</u>
<b>Total Capital Assets, Net</b>	<b><u>11,389,084</u></b>	<b><u>11,641,756</u></b>	<b><u>12,414,812</u></b>	<b><u>12,830,154</u></b>	<b><u>10,389,290</u></b>
<b>Total Assets</b>	<b><u>\$24,784,697</u></b>	<b><u>\$23,715,714</u></b>	<b><u>\$23,094,941</u></b>	<b><u>\$23,307,017</u></b>	<b><u>\$21,030,511</u></b>
<b>LIABILITIES AND NET POSITION:</b>					
<b>CURRENT LIABILITIES</b>					
Current Portion of Long-Term Debt	\$ 1,285,622	\$ 782,778	\$ 759,980	\$ 721,889	\$ 1,093,549
Accounts Payable	336,130	345,593	438,732	481,548	403,922
Accrued Payroll, Benefits, and Related Liabilities	1,107,932	1,143,283	976,080	938,967	821,249
Self Funded Health Insurance	184,579	84,579	78,459	60,239	60,000
Estimated Third-Party Payor Settlements	-	47,729	599,184	-	-
Other Accrued Liabilities	<u>470,856</u>	<u>625,043</u>	<u>768,515</u>	<u>793,669</u>	<u>259,778</u>
<b>Total Liabilities</b>	<b>3,385,119</b>	<b>3,029,005</b>	<b>3,620,950</b>	<b>2,996,312</b>	<b>2,638,498</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-Term Debt, Net of Current Position	<u>2,885,864</u>	<u>4,169,014</u>	<u>4,949,613</u>	<u>5,449,665</u>	<u>3,454,529</u>
<b>Total Liabilities</b>	<b>6,270,983</b>	<b>7,198,019</b>	<b>8,570,563</b>	<b>8,445,977</b>	<b>6,093,027</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	7,217,598	6,689,964	6,705,219	6,658,600	5,841,212
Unrestricted	<u>11,296,116</u>	<u>9,827,731</u>	<u>7,819,159</u>	<u>8,202,440</u>	<u>9,096,272</u>
<b>Total Net Position</b>	<b><u>18,513,714</u></b>	<b><u>16,517,695</u></b>	<b><u>14,524,378</u></b>	<b><u>14,861,040</u></b>	<b><u>14,937,484</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$24,784,697</u></b>	<b><u>\$23,715,714</u></b>	<b><u>\$23,094,941</u></b>	<b><u>\$23,307,017</u></b>	<b><u>\$21,030,511</u></b>

Source: Hospital District Audited Financial Statements

## Financial Policies

The District prepares its financial statements in accordance with generally accepted accounting principles, including those recommended by Governmental Accounting Standards Board (“GASB”). For information regarding the District’s accounting policies, see “APPENDIX B – Mitchell County Hospital District Annual Report for Fiscal Year ended September 30, 2019 – *Note 1 – Summary of Significant Accounting Policies*”.

## Investments

The District invests its funds in investments authorized by State 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 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) certificates of deposit and share certificates meeting the requirements of the PFIA (i) 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 secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through 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 certificates 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 certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the District, held in the District’s name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) 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 270 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 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<sub>m</sub>” or an equivalent by at least one nationally recognized rating service. 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 may 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

### **Investment Policies**

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

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

### **Additional Provisions**

Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (3) 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 imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (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 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) adopt an 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 said ordinance or resolution; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transaction with the District.

### **Table 13 – Current Investments\***

As of October 19, 2020, the District's investable funds were invested as follows:

Demand Deposits/Cash	\$10,781,169.41
Certificates of Deposit	\$ 3,546,432.54

## **TAX MATTERS**

### **Opinion**

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate and (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 therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income 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 the 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 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 maturity amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing 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 Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the

date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **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.

### **State, Local and Foreign Taxes**

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

### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to 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.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified material events to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("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 Tables 1 - 12 (the "Annual Financial Information"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) 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 regulations and shall be in substantially the same form included in APPENDIX B and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which the Financial Statements must be provided. The District will update and provide the Annual Financial Information and the Financial Statements within nine (9) months after the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. If the audit of the Financial Statements is not complete within nine (9) months after any such fiscal year end, then the District shall file unaudited Financial Statements within such nine-month period and audited Financial Statements for the applicable fiscal year when and if the audit report on such Financial Statements becomes available. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web Site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by Rule 15c2-12 (the "Rule").

The District's current fiscal year end is September 30. Accordingly, it must provide Annual Financial Information and Financial Statements by June 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of such 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 trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, 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 or Financial Statements in accordance with their agreement described above under the subcaption “Annual Reports”.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. Additionally, for the purposes of the above described event notices, the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a “financial obligation” shall not include municipal securities 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**

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

During the last five years, the District has not entered into any continuing disclosure agreements pursuant to the Rule.

## **OTHER INFORMATION**

### **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).

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

### **Registration and Qualification of Bonds for Sale**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or

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

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

### **Legal Matters**

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State 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 excluded pursuant to section 103(a) of the Code from gross income of the owners thereof for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein. A form of such opinion is attached hereto as APPENDIX C. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds, will also be furnished to the Underwriter. Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds under the captions "THE BONDS" (except the subcaptions "DTC Notices", "Book-Entry-Only System" and "Sources and Uses of Proceeds"), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except the subheading "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas," and "Legal Matters" under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Bonds and legal issues contained under such captions and subcaptions is a fair and accurate description of the laws and legal issues addressed therein, and with respect to the Bonds, such information conforms to the Order. The District expects to pay the fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. The legal opinions may accompany the Bonds deposited with DTC or may be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. In addition, certain legal matters will be passed upon for the Underwriter by Winstead PC, San Antonio, Texas as Counsel for the Underwriter.

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

### **Underwriting**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District, at a purchase price of \$\_\_\_\_\_, constituting the principal amount of the Bonds, [plus original issue premium] [less original issue discount] of \$\_\_\_\_\_, less an underwriting discount of \$\_\_\_\_\_. The Underwriter 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 Underwriter 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 Underwriter.

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

### **Forward-Looking Statements Disclaimer**

The statements contained in this Official Statement, the appendices attached hereto, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement

are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. It is important to note that the District's actual results could differ materially from those in such forward-looking statements.

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

### **CONCLUDING STATEMENT**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

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

The Order authorizing the issuance of the Bonds will approve the form and content of this Official Statement and any addenda, supplement or amendment hereto and will authorize its further use in the re-offering of the Bonds by the Underwriter.

\_\_\_\_\_  
President, Board of Directors  
Mitchell County Hospital District

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors  
Mitchell County Hospital District

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**APPENDIX A**

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**GENERAL INFORMATION REGARDING THE DISTRICT**

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## GENERAL INFORMATION REGARDING THE DISTRICT

### THE DISTRICT

The Mitchell County Hospital District (the “District”), formerly Colorado City Hospital District, is a political subdivision of the State of Texas located in Mitchell County, Texas. The District was created in August of 1967 and was originally owned and operated by the City of Colorado City, Texas. The District currently operates the Mitchell County Hospital in Colorado City, Texas (the “Hospital”), along with other health and wellness facilities/services.

Creation of the District was authorized by voter approval in 1967. The election approved the creation of the District, as well as the District’s authority to levy annual taxes at a rate not to exceed \$0.75 per \$100 valuation of taxable valuation for all hospital purposes, including the payment of debt service on bonds secured by such tax. See “DESCRIPTION OF THE DISTRICT” in the body of the Official Statement for more information regarding the District and its facilities.

### MITCHELL COUNTY

Mitchell County is in the prairie of west central Texas bounded on the east by Nolan County, on the south by Sterling and Coke Counties, on the west by Howard County and on the north by Scurry County. The county is comprised of approximately 912 square miles and has an economy based on oil and gas, manufacturing, wind farms, government and agribusiness. Recreational areas include Lake Colorado City State Park and Fisher (Lake Champion) Park. Temperatures in the county range from an average high of 96° in July to an average low of 30° in January, rainfall averages 19.68 inches a year, and the growing season lasts 217 days. The county is served by Interstate Highway 20, which runs from west to east, and by State highways 163 (north to south) and 208 (north to southeast). Mitchell County had an estimated population of 9,698 in 2000, 9,403 in 2010 and 8,145 in 2018.



### GOVERNANCE

#### Board of Directors

The District is governed by a seven member Board of Directors (the “Board”). Directors are elected for staggered two year terms. The Board formulates operation policy for the District; an appointed Administrator is the chief administrative officer. The District has authority to levy ad valorem taxes for maintenance and operation, and for debt service, subject to the limits stated in the Texas Constitution and Chapter 466, Acts of the 60<sup>th</sup> Legislature, Regular Session, 1967, as amended, now codified at Chapter 1062, Texas Special District Local Laws Code, (the “Act”); the District’s maximum tax rate is \$.75 per \$100 assessed valuation.

#### Key Administrative Staff

The District’s administrative staff consists of the following individuals:

**Chief Executive Officer.** Robbie Dewberry, Chief Executive Officer/Administrator of Mitchell County Hospital District. Mr. Dewberry is a graduate of Midwestern State University in Wichita Falls, Texas and has worked in the healthcare industry for over 30 years, all of which has been in a hospital setting. His experience includes materials management, human resources, information systems manager, chief financial officer and for the last 15 years as a chief executive officer. He has worked at four hospitals during his career, Hansford County Hospital District, Eastland Memorial Hospital, Stephens Memorial Hospital and for the last

10 years as CEO at Mitchell County Hospital District. Robbie currently serves on the Board of Directors for the Texas Organization of Rural and Community Hospital's and the Texas Hospital Insurance Exchange.

Mitchell County Hospital District has received the following awards during Mr. Dewberry's tenure as CEO:

- 2015 CMS Compare 5 Star Rated Hospital in Overall Patient Experience
- 2016 TOP 100 Critical Access Hospitals
- 2017 TOP 20 Critical Access Hospital for Best Practices in Quality
- 2018 TOP 100 Critical Access Hospitals
- 2018 TOP 20 Critical Access Hospital in both Best Practices in Quality and Patient Satisfaction

In addition to the institutional awards set forth above, Robbie has personally received the Texas Organization Rural Community Hospital's Essence of Leadership Award in 2015 and 2018 along with the 2018 Texas Hospital Association's Pioneer Award.

**Chief Financial Officer.** Michelle Gafford, Chief Financial Officer. Mrs. Gafford has a bachelor degree in accounting and, among other duties, oversees the Revenue Cycle from admissions to billing, Materials Management, Payroll and Accounts Payable. Along with those responsibilities, there are the numerous State and Federal filings to prepare, file and oversee. Michelle began her career in an auditing and tax accounting firm for 15 years before moving to the Controller position of Mitchell County Hospital in July of 2013. During her auditing tenure, the focus was on small Rural Hospitals in the West Texas and surrounding counties which gave her an appreciation for the challenges Rural Hospitals face and an interest to move into this hospital/healthcare facility arena.

### **HOSPITAL BACKGROUND/FACILITIES**

In 1913, "The Phoenix Sanitarium" was established and labeled after its founder Dr. N. J. Phoenix, as the first hospital of Colorado City, Mitchell County Texas. The word "hospital" was not used during this era as the word "sanitarium" was commonly utilized. In 1920, Dr. C. L. Root purchased a residence located south of the Colorado River on top of a small hill and converted it into the Colorado Sanitarium. Seven years later, he constructed a hospital building that consisted of nine patient rooms located on Chestnut Street and called it the C. L. Root Hospital. The Root Memorial Hospital expanded into 12 beds, an operating room, a delivery room and a small detached building which housed the nursing staff. A new ambulance driveway was constructed in 1958. The nurse's housing was changed to a dietary department and a doctor's lounge. A connecting corridor was constructed between the two original buildings. In 1963, a vacant lot adjacent to the hospital led to the creation of a 50 bed nursing home known as the Root Valley Fair Lodge. That same year another addition was completed for the lab and x-ray departments.

The inception of Medicare in 1966 created a financial hardship for the hospital leaving the future uncertain. Both city and county representatives sought a solution with the hospital administration to keep delivering patient care. In 1967, Mitchell County citizens voted for the conception of the Mitchell County Hospital District. In 1974 the District began participating with the city and county to provide ambulance services for the community. Unfortunately, both city and county officials did not want to partially fund the Emergency Medical Service any longer; therefore the hospital district took over sole responsibility. The 70+ year-old hospital desperately needed to be replaced. This necessity led to the construction of a brand new facility in 2004; which is currently located near Interstate 20. The facility is comprised of a 25 room acute nursing wing, surgery with 2 surgery suites, emergency department with 4 beds as well as a Rural Health Clinic. The total square footage of the facility is approximately 84,000 square feet.

Family Medical Associates, our community rural health clinic, moved to the site when it was established and remains the clinics home. The Heart of West Texas Home Health Agency, which had been owned and operated by the District, was sold to a private company in 2008.

Today, the District operates a 25 bed critical access hospital which retains a Level IV Trauma Designation. The District also owns and operates MCEMS (Mitchell County Emergency Medical Service), which supports 24 hour seven day a week service for the County. MCEMS employs 8 full-time and 7 part-time employees, including 12 paramedics and 3 EMT's.

Family Medical Associates (FMA) is our rural health clinic that is owned by the District. Currently FMA has grown to acquire 3 physicians, 1 general surgeon, and 1 Nurse Practitioner. Presently there are specialists in Urology, Gynecological, General Surgery, Cardiology, Nephrology, Podiatry, Neurology, Oncology, and Ophthalmology. The District also owns and operates Mitchell County Nursing & Rehabilitation Center, a long-term care facility.

Accreditation and Licenses

The Mitchell County Hospital is licensed by the State of Texas and approved for participation in the Medicare and Medicaid programs by the United States Department of Health and Human Services of the State.

**SERVICE AREA**

Management defines the primary service area for the District as Mitchell County, Texas and the secondary service area as the counties of Nolan, Scurry and Coke. The primary service area contributed approximately 80% of the total admissions in Fiscal Year 2019. The secondary service area contributed approximately 20% of total admissions in Fiscal Year 2019. The population of the primary service area is approximately 10,000 and the combined population for the secondary service is approximately 35,000.

**COMPETITION**

Although there are no hospitals located in the District’s primary service area, there are 2 hospitals in the secondary service area and several other hospitals in the region that require the District to remain highly cognizant of competition. These hospitals and their locations are as follows:

<u>Hospital</u>	<u>Licensed Beds</u>	<u>Location Distance from the Hospital</u>
Rolling Plains Memorial Hospital	39	28 Miles
Cogdell Memorial Hospital	25	22 Miles

**OPERATIONS AND UTILIZATION OF THE HOSPITAL**

**HOSPITAL SERVICES**

Mitchell County Hospital provides general medical and surgical care for inpatient, outpatient, and emergency room patients, and participates in the Medicare and Medicaid programs. Emergency room services are available on a 24-hour per day, seven-day per week basis. The inpatient, outpatient/ancillary services offered by the Hospital include the following:

*24-hour, 7-day a week Ambulance Service*

*Cardiac Rehabilitation Services*

*Cardiopulmonary Services*

*24-hour, 7-day a week Emergency Room Services*

*Rural Health Clinic – Family Medical Services*

*General Surgery*

(Tonsillectomy, Mastectomy, Appendectomy, Hysterectomy, Hernia Correction, Pain Management Injections, Thyroid Procedures, Gall Bladder Surgery, Tubal Ligation, Bladder Suspension, Laparoscopic Procedures, Colonoscopies, Biopsies, and others procedures)

*Inpatient Pharmacy Services*

*Laboratory Services*

*Physical Therapy and Wellness Services*

*Radiology*

*Respiratory Therapy Services*

*Specialty Clinic Services*

*Swing Bed Program*

*Wallace and Daniel Prison Nursing Services*

Mitchell County Hospital District in partnership with the Texas Department of Criminal Justice and Texas Tech University manage two correctional facilities. The Wallace unit is located in Colorado City while the Daniel unit is located just outside of Snyder.

Between the two units, Mitchell County Hospital staff provide a wide variety of health care services to an estimated 3200 offenders. Some of these services include medical, nursing, dental, mental health, laboratory, and radiology. Mitchell County Hospital District staffs around forty employees between the two facilities.

**HOSPITAL UTILIZATION**

A summary of significant historical utilization data for the Mitchell County Hospital during the five Fiscal Years ending September 30, 2015-2019, according to the Mitchell County Hospital records, is set forth in the following table:

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Licensed Beds	25	25	25	25	25
Beds in Service	17	17	17	17	17
Occupancy	23.4	31.9	19.1	17	14.9
Admissions	408	309	375	375	368
Patient Days	1412	1131	1383	1410	1331
Adjusted Patient Days	88	75.4	81.35	82.94	83.19
Average Length of Stay (Days)	3.46	3.66	3.69	3.76	3.62
Average Daily Census	3.87	3.09	3.79	3.86	3.65
Emergency Room Visits	5363	4793	4660	4996	5027
Inpatient Surgical Procedures	54	20	29	14	13
Outpatient Surgical Procedures	255	214	225	273	259

**PROFESSIONAL STAFF AND EMPLOYEES**

**PHYSICIAN RECRUITMENT AND RETENTION**

The CEO is responsible for assessing the adequacy, in number and mix of specialty, of the physicians practicing at the hospital.

Mitchell County Hospital District has a combined staff of 12 full time Medical Staff comprised of 5 Primary Care Physicians, 1 General Surgeon, 3 Nurse Practitioners, 3 Physician Assistants, a nursing staff that includes approximately 82 RN, LVN and C.N.A's with an additional support staff of 164 that cover the other areas such as Radiology, Laboratory, Physical Therapy and the districts Nursing Home to name a few of the departments.

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**SOURCES OF PATIENT REVENUES**

<b>Revenue Source</b>	<b>FYE 2015</b>	<b>FYE 2016</b>	<b>FYE 2017</b>	<b>FYE 2018</b>	<b>FYE 2019</b>
Medicare	33.83%	32.68%	35.21%	31.77%	29.88%
Medicare ADV	6.67%	7.17%	9.58%	11.66%	11.83%
Medicaid	1.52%	1.39%	2.01%	2.03%	1.25%
Medicaid MCO	5.85%	7.30%	0.00%	0.06%	7.60%
BCBS	19.90%	17.12%	17.42%	22.07%	17.93%
TDCJ-Prison Units	3.59%	4.77%	4.19%	3.56%	3.03%
All other Commercial	16.54%	16.74%	15.00%	10.86%	15.33%
Self-Pay	<u>12.10%</u>	<u>12.83%</u>	<u>16.59%</u>	<u>17.99%</u>	<u>13.15%</u>
	100.00%	100.00%	100.00%	100.00%	100.00%

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**APPENDIX B**

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**AUDITED GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR YEAR ENDED SEPTEMBER 30, 2019**

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**MITCHELL COUNTY HOSPITAL DISTRICT  
COLORADO CITY, TEXAS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2019 AND 2018**



## INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors  
Mitchell County Hospital District  
Colorado City, Texas

We have audited the accompanying financial statements of Mitchell County Hospital District, (the "District"), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic 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 Mitchell County Hospital District, as of and for the years ended September 30, 2019 and 2018, 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 Matters**

### ***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  
April 27, 2020

**MITCHELL COUNTY HOSPITAL DISTRICT  
COLORADO CITY, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2019 AND 2018**

**MITCHELL COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2019 AND 2018  
(Unaudited)**

Our discussion and analysis of Mitchell County Hospital District (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2019 and 2018. Please read it in conjunction with the District's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- The District's net position reflected a 12.1% or \$1,996,019 increase in 2019, and a 13.7% or \$1,993,317 increase in 2018.
- Net patient service revenue increased by \$100,267 or 0.6% in 2019 and increased by \$3,650,956 or 26.6% in 2018.
- The District reported an operating loss of \$1,776,999 in 2019 compared to an operating loss of \$1,787,368 in 2018.

**USING THIS ANNUAL REPORT**

The District's financial statements consist of three statements, a Statement 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 Statement 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 net 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.

**MITCHELL COUNTY HOSPITAL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018  
(Unaudited)**

**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 2. The District’s total assets increased by \$1,068,983 or 4.5% in 2019 and \$620,773 or 2.7% in 2018, as shown in Table 1.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current Assets	\$10,641,472	\$ 9,298,459	\$ 7,720,101
Capital Assets, Net	11,389,084	11,641,756	12,414,812
Other Non-Current Assets	<u>2,754,141</u>	<u>2,775,499</u>	<u>2,960,028</u>
Total Assets	<u>\$24,784,697</u>	<u>\$23,715,714</u>	<u>\$23,094,941</u>
Liabilities and Net Position:			
Long-Term Debt Outstanding	\$ 4,171,486	\$ 4,951,792	\$ 5,709,593
Other Current and Non-Current	<u>2,099,497</u>	<u>2,246,227</u>	<u>2,860,970</u>
Total Liabilities	6,270,983	7,198,019	8,570,563
Net Position	<u>18,513,714</u>	<u>16,517,695</u>	<u>14,524,378</u>
Total Liabilities and Net Position	<u>\$24,784,697</u>	<u>\$23,715,714</u>	<u>\$23,094,941</u>

Significant components of the change in the District’s net position is due to an increase in short-term investments, an increase in estimated third-party payor settlements, and an increase in prepaid and other current assets. Short-term investments increased approximately \$1.2M in 2019 due to purchases of investments in the current year from favorable cash flows from operating activities. Estimated third-party payor settlements increased approximately \$675K in 2019 due to an increase in allowable Medicare expenses incurred in excess of interim Medicare payments received during the year. Prepaid and other current assets increased approximately \$513K in 2019 due to an increase in uncompensated intergovernmental transfer (“IGT”) payments related to the 1115 Waiver program. The prepaid IGT expense increased approximately \$500K in 2019.

**MITCHELL COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018  
(Unaudited)**

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

In 2019 and 2018, the District's net position increased by \$1,996,019, or 12.1%, and \$1,993,3017, or 13.7%, respectively.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES:</b>			
Net Patient Service Revenue	\$ 17,480,433	\$ 17,380,166	\$ 13,729,210
Premium Revenue	2,848,892	2,791,218	3,205,738
Other Operating Revenue	<u>1,045,456</u>	<u>730,574</u>	<u>722,692</u>
Total Operating Revenues	21,374,781	20,901,958	17,657,640
<b>OPERATING EXPENSES:</b>			
Salaries, Wages, and Benefits	13,283,197	12,867,985	12,905,145
Other Operating Expenses	8,823,676	8,690,291	7,647,853
Depreciation and Amortization	<u>1,044,907</u>	<u>1,131,050</u>	<u>1,148,638</u>
Total Operating Expenses	<u>23,151,780</u>	<u>22,689,326</u>	<u>21,701,636</u>
Operating Loss	(1,776,999)	(1,787,368)	(4,043,996)
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property Tax Revenue	3,162,450	3,246,093	3,093,741
Noncapital Grants and Contributions	70,564	101,796	89,457
Community Benefit Support	2,148,140	2,167,182	1,961,838
Intergovernmental Transfer	(1,595,400)	(1,649,770)	(1,389,274)
Other	<u>(29,620)</u>	<u>(92,525)</u>	<u>(128,704)</u>
Total Nonoperating Revenues (Expenses)	<u>3,756,134</u>	<u>3,772,776</u>	<u>3,627,058</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Contributions	1,979,135	1,985,408	(416,938)
Capital Grants and Contributions	<u>16,884</u>	<u>7,909</u>	<u>80,276</u>
Increase (Decrease) in Net Position	1,996,019	1,993,317	(336,662)
Net Position, Beginning of Year	<u>16,517,695</u>	<u>14,524,378</u>	<u>14,861,040</u>
Net Position, End of Year	<u>\$ 18,513,714</u>	<u>\$ 16,517,695</u>	<u>\$ 14,524,378</u>

**MITCHELL COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018  
(Unaudited)**

**Operating Loss**

The first component of the overall change in the District's net position is its operating income or loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The District reported an operating loss in 2019 and 2018 of \$1,776,999 and \$1,787,368, respectively. The District's operations began in 1927, as a private hospital then in 1967 it was agreed that a portion of its costs would be subsidized by property tax revenues, making the facility more affordable for the County's lower income residents and the Hospital District was created.

The primary components of the operating loss for 2019 are:

- Net patient service revenue increased \$100,267 or 0.6%
- Other operating revenue increased \$314,882, or 43.1%
- Salaries, wages, and benefits increased \$415,212, or 3.2%

The primary components of the favorable decrease in operating loss for 2018 are:

- Net patient service revenue increased \$3,650,956, or 26.6%
- Premium revenue decreased \$414,520, or 12.9%
- Other operating expenses increased \$1,042,438, or 13.6%

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied by the District, community benefit support and investment income. Community benefit support decreased by \$19,042, or 0.9%, in 2019 and increased \$205,344, or 10.5% in 2018.

**Grants, Contributions, and Endowments**

The District received noncapital grants and contributions of \$70,564 and \$101,796 in 2019 and 2018, respectively. The District received capital grants and contributions of \$16,884 and \$7,909 in 2019 and 2018, respectively.

**THE DISTRICT'S CASH FLOWS**

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses previously discussed.



**MITCHELL COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018  
(Unaudited)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2019, the District had \$11,389,084 invested in capital assets, net of accumulated depreciation, as detailed in Note 8 of the financial statements, compared to \$11,641,756 in 2018. The District acquired capital assets in the amount of \$789,486 and \$360,492 in 2019 and 2018, respectively.

**Debt**

At the end of 2019 and 2018, the District had long-term debt outstanding of \$4,171,486 and \$4,951,792, respectively, as detailed in Note 9 of the financial statements. The District made payments totaling \$783,053 and \$760,636 in 2019 and 2018, respectively.

**Other Economic Factors**

The District maintains good relations with agricultural based companies, wind energy, petroleum industry, Colorado City, and school districts as well as other businesses in Mitchell County, Texas.

**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 Robbie Dewberry, Administrator/CEO at Mitchell County Hospital District, 997 West I-20, Colorado City, Texas 79512.

**MITCHELL COUNTY HOSPITAL DISTRICT  
COLORADO CITY, TEXAS**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2019 AND 2018**

# MITCHELL COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

ASSETS:	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,274,984	\$ 3,121,361
Short-Term Investments	1,521,673	274,033
Assets Whose Use is Limited	23,011	32,114
Patient Accounts Receivable, Net of Allowances	3,018,786	2,872,463
Estimated Third-Party Payor Settlements	674,610	-
Other Receivables	547,131	882,304
Inventory of Supplies	372,789	429,922
Prepaid and Other Current Assets	2,099,580	1,586,790
Property Taxes Receivable	<u>108,908</u>	<u>99,472</u>
Total Current Assets	10,641,472	9,298,459
ASSETS WHOSE USE IS LIMITED - LONG-TERM	2,754,141	2,775,499
CAPITAL ASSETS		
Land	146,082	146,082
Construction-in-Progress	215,428	-
Depreciable Capital Assets, Net	<u>11,027,574</u>	<u>11,495,674</u>
Total Capital Assets, Net	<u>11,389,084</u>	<u>11,641,756</u>
Total Assets	<u>\$ 24,784,697</u>	<u>\$ 23,715,714</u>

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

# MITCHELL COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

LIABILITIES AND NET POSITION:	<u>2019</u>	<u>2018</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 1,285,622	\$ 782,778
Accounts Payable	336,130	345,593
Accrued Payroll, Benefits, and Related Liabilities	1,107,932	1,143,283
Self Funded Health Insurance	184,579	84,579
Estimated Third-Party Payor Settlements	-	47,729
Other Accrued Liabilities	<u>470,856</u>	<u>625,043</u>
Total Current Liabilities	3,385,119	3,029,005
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	<u>2,885,864</u>	<u>4,169,014</u>
Total Liabilities	6,270,983	7,198,019
NET POSITION		
Net Investment in Capital Assets	7,217,598	6,689,964
Unrestricted	<u>11,296,116</u>	<u>9,827,731</u>
Total Net Position	<u>18,513,714</u>	<u>16,517,695</u>
Total Liabilities and Net Position	<u>\$ 24,784,697</u>	<u>\$ 23,715,714</u>

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

**MITCHELL COUNTY HOSPITAL DISTRICT**

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

**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Net Patient Service Revenue	\$ 17,480,433	\$ 17,380,166
Premium Revenue	2,848,892	2,791,218
Other Operating Revenue	1,045,456	730,574
Total Operating Revenues	21,374,781	20,901,958
 <b>OPERATING EXPENSES:</b>		
Salaries and Wages	10,958,547	10,667,865
Employee Benefits	2,324,650	2,200,120
Professional Fees and Purchased Services	5,051,091	4,860,429
Supplies	2,057,372	2,090,702
Other Operating	1,715,213	1,739,160
Depreciation and Amortization	1,044,907	1,131,050
Total Operating Expenses	23,151,780	22,689,326
Operating Loss	(1,776,999)	(1,787,368)
 <b>NONOPERATING REVENUES (EXPENSES):</b>		
Property Tax Revenue	3,162,450	3,246,093
Noncapital Grants and Contributions	70,564	101,796
Community Benefit Support	2,148,140	2,167,182
Intergovernmental Transfer	(1,595,400)	(1,649,770)
Investment Income	115,479	91,549
Interest Expense	(161,745)	(197,495)
Gain on Disposal of Assets	16,646	13,421
Total Nonoperating Revenues (Expenses)	3,756,134	3,772,776
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,979,135	1,985,408
Capital Grants and Contributions	16,884	7,909
Increase in Net Position	1,996,019	1,993,317
Net Position, Beginning of Year	16,517,695	14,524,378
Net Position, End of Year	\$ 18,513,714	\$ 16,517,695

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

# MITCHELL COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from and on Behalf of Patients	\$ 19,308,903	\$ 18,991,116
Other Receipts and Payments, Net	1,378,202	386,850
Payments to Suppliers and Contractors	(6,665,914)	(6,622,874)
Payments to Employees	(13,227,781)	(12,694,760)
Net Cash Provided by Operating Activities	793,410	60,332
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Earnings	115,479	90,185
Purchase of Investments	(1,247,640)	-
Net Cash Provided (Used) by Investing Activities	(1,132,161)	90,185
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital Grants and Contributions	16,884	7,909
Property Taxes Restricted for Capital Activities	587,570	587,570
Principal Payments on Long-Term Debt and Notes Payable	(783,053)	(760,636)
Interest Payments on Long-Term Debt and Notes Payable	(158,998)	(194,660)
Proceeds of Disposal of Capital Assets	13,897	15,919
Purchase of Capital Assets	(789,486)	(360,492)
Net Cash Used by Capital and Related Financing Activities	(1,113,186)	(704,390)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property Taxes	2,565,444	2,586,340
Noncapital Grants and Contributions	70,564	101,796
Payments for Intergovernmental Transfers	(2,060,909)	(1,984,510)
Net Cash Provided by Noncapital Financing Activities	575,099	703,626
Net Increase (Decrease) in Cash and Cash Equivalents	(876,838)	149,753
Cash and Cash Equivalents, Beginning of Year	5,928,974	5,779,221
Cash and Cash Equivalents, End of Year	\$ 5,052,136	\$ 5,928,974

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

# MITCHELL COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 2,274,984	\$ 3,121,361
Assets Whose Use is Limited - Current	23,011	32,114
Assets Whose Use is Limited - Long Term	<u>2,754,141</u>	<u>2,775,499</u>
Total Cash and Cash Equivalents	<u>\$ 5,052,136</u>	<u>\$ 5,928,974</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (1,776,999)	\$ (1,787,368)
Adjustments to Reconcile Operating Loss to Net Cash		
Flows Provided by Operating Activities:		
Depreciation and Amortization	1,044,907	1,131,050
Provision for Bad Debts	4,092,223	3,831,743
Indigent Care Support	2,148,140	2,167,182
(Increase) Decrease in:		
Accounts Receivable	(4,238,546)	(4,324,789)
Prepaid Expenses and Other Current Assets	345,025	(342,743)
Estimated Third-Party Payor Settlements	(722,339)	(551,455)
Increase (Decrease) in:		
Accounts Payable	(9,463)	(93,139)
Accrued Salaries and Benefits Payable	(35,351)	167,203
Other Accrued Liabilities	<u>(54,187)</u>	<u>(137,352)</u>
Net Cash Provided by Operating Activities	<u>\$ 793,410</u>	<u>\$ 60,332</u>

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

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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

**Organization** – The Mitchell County Hospital District, (the District) is a political subdivision authorized by the State of Texas and is exempt from federal income taxes. The District is governed by a board of directors, elected by the citizens of Mitchell County, Texas. As dictated by state law creating the district, the District is responsible for health care of indigent residents of Mitchell County and is funded, in part, by ad valorem taxes on real and personal property within the jurisdiction. The District operates a 25 bed critical access hospital (Mitchell County Hospital) and a 110 bed nursing home located in Colorado City, Texas. On December 1, 2014, the District purchased Kristi Lee Manor, Inc. and merged the operations with Valley Fair Lodge to become Mitchell County Nursing and Rehabilitation Center (MCNHR).

The Family Medical Physician Group, Inc. is a nonprofit corporation organized under the Texas Nonprofit Corporation Act and an Article 501(a) Health Organization under the Texas Medical Practice Act that was created to promote healthcare and healthcare providers for the citizens of Mitchell County. The District is the sole corporate member of this organization. This organization is combined within the financial statements of the District. For financial reporting purposes, the District includes all operations controlled by the Board. All intercompany transactions are eliminated. No financial activity has occurred in the physician group during 2019 and 2018.

**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-November 30, 1989 FASB and AICPA Pronouncement*. 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*.

**Newly Adopted Accounting Pronouncements:**

**GASB Statement No. 88** – In April 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB 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 Statement is effective for reporting periods beginning after June 15, 2018. The implementation of this Standard had no effect on the change in net position as of September 30, 2019 and 2018.



**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**Pending Adoption of Recent Accounting Pronouncements:**

**Accounting Standards Update (ASU) No. 2014-09** - In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was implemented by FASB to whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**GASB Statement No. 87** – In June 2017, the Governmental Accounting Standards Board (“GASB”) issues 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 statement will have on the financial statements and related disclosures.

**GASB Statement No. 89** – In June 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objective of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this statement will have on financial statements and related disclosures.

**GASB Statement No. 90** – In August 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are 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. The Statement is effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this statement will have on financial statements and related disclosures.

**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.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**Pending Adoption of Recent Accounting Pronouncements (Continued):**

**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;
- 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 disclosures.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**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 end 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 a 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.

**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, 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.

**Capital Assets** – Capital Assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The District provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. 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 life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District's policy is to capitalize acquisitions over \$5,000 with a useful life described below.

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

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

**Assets Whose Use is Limited** - Assets whose use is limited include assets held by trustees under indenture agreements. Amounts required to meet current liabilities of the District are reclassified in the statement of net position when applicable.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**Net Position** – Net position of the District is classified into three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is non-capital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. 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 non-operating 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 non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**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.

**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. Management’s policy for the provision of charity includes an application process based on the poverty income guidelines published in the *Federal Register*. Because the District does not pursue collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**Compensated Absences** – District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as paid time-off benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at the date.

**Grants and Contributions** - From time to time, the District receives grants from the state 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**Property Taxes** - The tax rates for the 2019 and 2018 fiscal years are \$0.367694 and \$0.378334, respectively, per \$100 valuation. Property taxes are recognized as revenue in the year for which taxes have been levied and are reported net of collection expenses and fees. The collection expenses and fees in 2019 and 2018 are \$57,657 and \$55,912, respectively. Current taxes are received beginning in November of each year and become delinquent on February 1 of the following year. Delinquent taxes are reserved at 95% as uncollectable.

**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.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to presentation in the current year financial statements. These reclassifications had no effect on the change in net position.

**NOTE 2 - NET PATIENT SERVICE 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 payers 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 of 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.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)**

Net patient service revenue is comprised as follows:

	<u>2019</u>	<u>2018</u>
Routine Patient Services	\$ 1,697,720	\$ 2,061,647
Ancillary Patient Services		
Inpatient	1,961,270	2,004,560
Outpatient	<u>22,357,227</u>	<u>21,663,599</u>
Gross Patient Service Revenue	26,016,217	25,729,806
Charity	(743,402)	(685,235)
Third-Party Contractual Adjustments	(4,396,337)	(4,965,857)
Provision for Bad Debts	(4,092,223)	(3,831,743)
Medicaid Supplemental Payments and Other Credits	<u>696,178</u>	<u>1,133,195</u>
Net Patient Service Revenue	<u>\$17,480,433</u>	<u>\$17,380,166</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. 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 at September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Medicaid Cost Report Receivable (Payable)	\$ -	\$ (2,426)
Medicare Cost Report Receivable (Payable)	<u>674,610</u>	<u>(45,303)</u>
Estimated Third-Party Payor Settlements Receivable (Payable)	<u>\$ 674,610</u>	<u>\$ (47,729)</u>

**Charity Care** - The value of charity care provided by the District based upon its established rates was \$743,402 in 2019 and \$685,235 in 2018. 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 estimated at \$666,580 and \$527,589 for the years ended September 30, 2019 and 2018 respectively.

**MITCHELL COUNTY HOSPITAL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2019 AND 2018**

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

At September 30, 2019 and 2018, deposits and collateral were as follows:

	<u>2019</u>	<u>2018</u>
Amount Insured by the FDIC	\$ 500,000	\$ 500,000
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the District's Name	<u>6,387,221</u>	<u>5,971,595</u>
Total Bank Balance	<u>\$ 6,887,221</u>	<u>\$ 6,471,595</u>
Total Carrying Value	<u>\$ 6,573,809</u>	<u>\$ 6,203,007</u>

**NOTE 4 – SHORT – TERM INVESTMENTS**

The District's investments are reported at fair value and consist of certificates of deposits that will mature within the next fiscal year.

The District's investments may be exposed to the following types of risks:

**Interest Rate Risk** - Interest rate risk is the risk that market values of investments will change based on changes in market interest rates.

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

**Custodial Credit Risk** - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 5 – ASSETS WHOSE USE IS LIMITED**

The composition of assets whose use is limited at September 30, 2019 and 2018 is set forth in the following table.

	<u>2019</u>	<u>2018</u>
<b>Assets Whose Use Is Limited - Current</b>		
Designated for Resident Trust Funds	<u>\$ 23,011</u>	<u>\$ 32,114</u>
<b>Assets Whose Use Is Limited - Long Term</b>		
Internally Designated Assets:		
Scholarships	\$ 355	\$ 347
Capital Expenditures	40,406	87,681
Debt Service	28,415	29,359
Construction	<u>2,684,965</u>	<u>2,658,112</u>
Total Assets Whose Use is Limited - Long Term	<u>\$ 2,754,141</u>	<u>\$ 2,775,499</u>

**NOTE 6 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Gross Accounts Receivable	\$15,364,982	\$13,390,818
Less: Allowance for Bad Debts	(10,872,437)	(8,877,632)
Allowance for Contractual Adjustments	<u>(1,473,759)</u>	<u>(1,640,723)</u>
Accounts Receivable, Net of Allowances	<u>\$ 3,018,786</u>	<u>\$ 2,872,463</u>

**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 September 30 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	11%	11%
Medicaid	12%	7%
Other Third-Party Payors	28%	36%
Patients	<u>49%</u>	<u>46%</u>
Total	<u>100%</u>	<u>100%</u>



**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 7 – PROPERTY TAXES RECEIVABLE**

Property taxes are assessed in January and are received beginning in October of each year and become delinquent as of February 1 of the following year. Taxes are recognized as revenues in the period for which they are levied and become available. Tax revenue, net of related expense, for 2019 and 2018 was \$3,162,450 and \$3,246,093, respectively. As of September 30, 2019 and 2018, the balance of property taxes receivable, and its related allowance for uncollectible taxes are as follows:

	<u>2019</u>	<u>2018</u>
Taxes Receivables	\$ 351,962	\$ 319,700
Allowance for Uncollectable Taxes	<u>(243,054)</u>	<u>(220,228)</u>
Net Property Taxes Receivable	<u>\$ 108,908</u>	<u>\$ 99,472</u>

**NOTE 8 – CAPITAL ASSETS**

The following is a summary of capital assets at cost less accumulated depreciation:

	Balance 09/30/18	Additions	Deletions	Transfers	Balance 09/30/19
Land	\$ 146,082	\$ -	\$ -	\$ -	\$ 146,082
Land Improvements	1,700,083	-	-	-	1,700,083
Building and Improvements	16,291,907	65,168	-	-	16,357,075
Equipment	10,070,827	508,890	-	202,950	10,782,667
Capital Leases	202,950	-	-	(202,950)	-
Construction in Progress	-	215,428	-	-	215,428
 Totals at Historical Cost	 28,411,849	 789,486	 -	 -	 29,201,335
 Less Accumulated Depreciation for:					
Land Improvements	(631,827)	(82,324)	-	-	(714,151)
Building and Improvements	(7,113,526)	(600,695)	-	-	(7,714,221)
Equipment	(8,821,790)	(359,139)	-	(202,950)	(9,383,879)
Capital Leases	(202,950)	-	-	202,950	-
 Total Accumulated Depreciation	 <u>(16,770,093)</u>	 <u>(1,042,158)</u>	 <u>-</u>	 <u>-</u>	 <u>(17,812,251)</u>
 Capital Assets, Net	 <u>\$ 11,641,756</u>	 <u>\$ (252,672)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 11,389,084</u>

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 8 – CAPITAL ASSETS (CONTINUED)**

	Balance 09/30/17	Additions	Deletions	Transfers	Balance 09/30/18
Land	\$ 146,082	\$ -	\$ -	\$ -	\$ 146,082
Land Improvements	1,660,726	39,357	-	-	1,700,083
Building and Improvements	16,280,662	11,245	-	-	16,291,907
Equipment	9,869,362	309,890	(108,425)	-	10,070,827
Capital Leases	202,950	-	-	-	202,950
Construction in Progress	5,331	-	(5,331)	-	-
<b>Totals at Historical Cost</b>	<b>28,165,113</b>	<b>360,492</b>	<b>(113,756)</b>	<b>-</b>	<b>28,411,849</b>
Less Accumulated Depreciation for:					
Land Improvements	(555,202)	(76,625)	-	-	(631,827)
Building and Improvements	(6,469,238)	(644,288)	-	-	(7,113,526)
Equipment	(8,522,911)	(407,304)	108,425	-	(8,821,790)
Capital Leases	(202,950)	-	-	-	(202,950)
<b>Total Accumulated Depreciation</b>	<b>(15,750,301)</b>	<b>(1,128,217)</b>	<b>108,425</b>	<b>-</b>	<b>(16,770,093)</b>
<b>Capital Assets, Net</b>	<b>\$ 12,414,812</b>	<b>\$ (767,725)</b>	<b>\$ (5,331)</b>	<b>\$ -</b>	<b>\$ 11,641,756</b>

Total depreciation expense for 2019 and 2018, was \$1,042,160 and \$1,128,215, respectively.

As of September 30, 2019, the balance in construction in progress is related to expansion of the District’s nursing home and physical therapy facilities. The expansion project commenced in April 2020 with a total estimated cost of approximately \$14M and is expected to be completed in May 2020.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 9 – LONG-TERM DEBT**

Following is a summary of long-term debt at September 30:

	Balance 09/30/18	Additions	Reductions	Balance 09/30/19	Due Within One Year
Long Term Debt					
Bond - Series 2010	\$ 1,640,000	\$ -	\$ (520,000)	\$ 1,120,000	\$ 550,000
City National Bank	2,655,511	-	(165,952)	2,489,559	170,716
Centennial Bank	662,007	-	(97,101)	564,906	564,906
Total	4,957,518	-	(783,053)	4,174,465	1,285,622
Less: Unamortized Bond Discount	(5,726)	-	2,747	(2,979)	(2,979)
Total Long Term Debt	<u>\$ 4,951,792</u>	<u>\$ -</u>	<u>\$ (780,306)</u>	<u>\$ 4,171,486</u>	<u>\$ 1,282,643</u>

	Balance 09/30/17	Additions	Reductions	Balance 09/30/18	Due Within One Year
Long Term Debt					
Bond - Series 2010	\$ 2,145,000	\$ -	\$ (505,000)	\$ 1,640,000	\$ 520,000
City National Bank	2,816,907	-	(161,396)	2,655,511	165,677
Centennial Bank	756,247	-	(94,240)	662,007	97,101
Total	5,718,154	-	(760,636)	4,957,518	782,778
Less: Unamortized Bond Discount	-	-	2,835	(5,726)	-
Total Long Term Debt	<u>\$ 5,709,593</u>	<u>\$ -</u>	<u>\$ (757,801)</u>	<u>\$ 4,951,792</u>	<u>\$ 782,778</u>

The following is a schedule of the future minimum lease payments on the capital lease obligations and principal payments on long term debt for each of the next five years:

For the Year Ending September 30,	Bond Requirements			Other Long Term Debt	
	Principal	Interest	Total	Principal	Interest
2020	\$ 550,000	\$ 43,680	\$ 593,680	\$ 735,622	\$ 76,589
2021	570,000	22,230	592,230	175,909	67,168
2022	-	-	-	181,259	61,817
2023	-	-	-	186,772	56,304
2024	-	-	-	192,453	50,623
2025-2029	-	-	-	1,053,713	161,670
2030-2034	-	-	-	528,737	18,743
Unamortized Bond Discount	(2,979)	-	(2,979)	-	-
Total	<u>\$ 1,117,021</u>	<u>\$ 65,910</u>	<u>\$ 1,182,931</u>	<u>\$ 3,054,465</u>	<u>\$ 492,914</u>

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

The terms and due dates of the District's long-term debt at September 30, 2019 and 2018 follows:

- Series 2010: General Obligation Refunding Bonds payable through February 15, 2021. Interest at 3.9% per annum payable each February 15 and August 15. Principal is due February 15 per annum. Secured by a pledge of property tax revenues.
- 3.0% Note payable with Centennial Bank, payable in monthly payments of principal and interest of \$9,656, collateralized by building and contents. Principal is due December 1, 2019.
- 3.0 % Note payable with City National Bank, payable in monthly payments of principal and interest of \$20,656 through December 1, 2031, collateralized by building and contents.

**Bond indentures** – On October 21, 2010, the District issued \$5,205,000 in general obligation refunding bond series 2010, which bears interest at 3.9%. These funds were used to refund the Series 2000 general obligation bonds.

At September 30, 2019 and 2018, the District provided a bond interest and sinking fund required by the 2010 General Obligation Refunding Bonds. The Series 2010 bond covenants require the District to set ad valorem taxes at a rate sufficient to raise and produce the money required to pay the interest on the bonds as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of its bonds such as principal matures. For the years ended September 30, 2019 and 2018, this amount was \$583,960 or 18.0% of total property tax received and \$588,655 or 18.0% of total property tax received, respectively. The District's taxes levied covered the debt service payments for September 30, 2019 and 2018. At September 30, 2019 and 2018, the District had \$28,415 and \$29,359, respectively, in its interest and sinking fund.

**Borrowing Restrictions** – Texas governmental hospitals have limitations on their ability to borrow funds. Generally, they are limited in the length of term for obligations to purchase equipment and restricted in their ability to borrow for working capital needs. Additionally, there are restrictions on their ability to pledge tax revenues to meet obligations more than one year in the future.

**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 \$490,290 and \$808,924, and received \$1,174,430 and \$1,796,717 for the years ended September 30, 2019 and 2018, respectively. The District recognized revenue of \$684,140 and \$987,793 for the years ended September 30, 2019 and 2018, respectively. The respective revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

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

**Indigent Care Affiliation** - Under the Section 1115 Demonstration Waiver, the District is part of an indigent care affiliation agreement with the Service Organization of Big Country, a non-profit corporation, and affiliated hospitals. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population. Under this program, the District contributes certain governmental funds to the State of Texas. The Service Organization of Big Country then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at \$2,148,140 and \$2,167,182 as of September 30, 2019 and 2018, respectively. As part of the affiliation agreement, the District provided \$2,094,921 and \$2,017,822 in funding to the program for the years ended September 30, 2019 and 2018, respectively. Of the \$2,094,921 and \$2,017,822 funded during 2019 and 2018, \$1,828,254 and \$1,328,733, respectively, has been recorded as a prepaid expenditure, as these amounts relate to future fundings, in the accompanying statements of net position.

**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 \$118,870 and \$219,962 and received \$284,036 and \$533,703 for the years ended September 30, 2019 and 2018. The District has set up a net receivable of \$156,544 and \$156,544 for the portion of these fundings received after year end. The District recognized net revenue of \$165,166 and \$313,741 for the years ended September 30, 2019 and 2018. The respective revenue is included within other revenue in the statements of revenues, expenses, and changes in net position.

**Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability** – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (“DSH”) and uncompensated care (“UC”) payments. The hospitals claimed the rule’s definition of “costs incurred” was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital’s “costs incurred” in the calculation of the Medicaid Hospital Specific Limit (“HSL”). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at September 30, 2019. At September 30, 2019, management recorded an estimated recoupment liability of \$116,000. The recoupment liability is included within other accrued liabilities in the accompanying statements of net position.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 11 – ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (E.H.R.). Payments under the Medicare program are based on Medicare's portion of the undepreciated E.H.R. cost in the year the Hospital satisfies the meaningful use requirements, and is included in the CMS Medicare cost report. Payments under the Medicaid program are generally made for up to three years based upon a statutory formula, as determined by the State, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The District recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. During 2019 and 2018, the Hospital received payments of \$-0- and \$93,993.

**NOTE 12– NURSING HOME OPERATIONS**

**Quality Incentive Payment Program** – During its 84<sup>th</sup> session, the Texas Legislature directed HHSC to transition MPAP to a new Quality Incentive Payment Program (QIPP) effective September 1, 2016, and HHSC will implement QIPP on September 1, 2017. QIPP will require participating facilities meeting certain qualifying criteria to submit projects to HHSC requesting the additional funding as supported in the individual projects. These projects are expected to improve quality and innovation in the provision of nursing facility services, including but not limited to payment incentives to establish culture change, small house models, staffing enhancements and outcome measures to improve the quality of care and life for nursing facility residents. A portion of the additional funding will be funded through intergovernmental transfer (IGT) payments from each participating provider. QIPP IGTs for a specific capitation rate period will be due to HHSC approximately six months prior to the beginning of the rate period.

During 2019, the District transferred \$202,378 to HHSC via an IGT for use as the state share of payments for the period March 1, 2019 through August 30, 2019 and \$182,322 for the period September 1, 2019 through February 28, 2020. Under this program, the District has recognized \$368,263 of expense and \$686,766 of revenue.

During 2018, the District transferred an additional \$107,225 to HHSC via an IGT for use as the state share of payments for the period March 1, 2018 through August 30, 2018 and \$202,374 for the period September 1, 2018 through February 28, 2019. Under this program, the District has recognized \$214,923 of expense and \$331,277 of revenue.

**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

**Litigation** – The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. The District is, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the District’s financial position or results of operations.

**Retirement Plan** – The Mitchell County Hospital District Employees Pension Plan (the “Plan”) is a section 401(k) defined contribution retirement plan that covers substantially all employees meeting age and service requirements. Employee’s meeting the age and service requirements may contribute to the plan and the District’s matching contributions to the plan are discretionary. District contributions to the plan for 2019 and 2018 were \$147,920 and \$128,849, respectively.

**Part-Time Employees** – Part-time employees with over twenty hours per week are entitled to prorated paid vacation and may participate in the defined contribution pension plan provided by the District. The part-time employees are subject to the same benefit requirements as the full-time employees.

**Leases** – The District leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2019 and 2018 was \$152,041 and \$141,344, respectively.

**NOTE 14 – HOSPITAL FOUNDATION**

Mitchell County Hospital Charitable Foundation (the “*Foundation*”) was formed October 14, 1997, as a 501(c)(3) organization. The Foundation was organized, and is operating exclusively as a supporting organization for the support and benefit of the District. No significant financial activity of the Foundation occurred during the year ending September 30, 2019 and 2018.

The Foundation is a not-for-profit corporation that is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. As a result, no provision for current or deferred income tax liability is recognized in the Foundation’s books and records. The Foundation evaluates any uncertain tax positions using the provisions of ASC 450, *Contingencies*. Management does not believe that it has engaged in any activity that would result in an uncertain tax position. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying financial statements. The Foundation has filed all applicable tax returns. The Foundation’s Forms 990, *Return of Organization Exempt from income Tax*, for the years ending 2017, 2018, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

**MITCHELL COUNTY HOSPITAL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2019 AND 2018**

**NOTE 15– EMPLOYEE HEALTH CLAIMS**

Substantially all of the District’s employees and their dependents are eligible to participate in the District’s employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to \$50,000 per employee and up to an annual aggregate amount of \$1,000,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the District’s estimate will change by a material amount in the near term. Activity in the District’s accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance, Beginning of Year	\$ 84,579	\$ 78,459
Current Year Claims Incurred and Changes in Estimates	1,254,630	1,464,835
Claims and Expenses Paid	<u>(1,154,630)</u>	<u>(1,458,715)</u>
Balance, End of Year	<u>\$ 184,579</u>	<u>\$ 84,579</u>

**NOTE 16 – PREMIUM REVENUE**

The District currently has contracts with the Texas Tech University Health Sciences Center (TTUHSC) to furnish offsite medical care to offenders incarcerated in the Texas Department of Criminal Justice (TDCJ) facility system. TTUHSC agrees to pay a set amount per day per official capacity of the prisons. The amounts received during fiscal year 2019 and 2018 was \$2,848,892 and \$2,791,218, respectively.

**NOTE 17 – PAYMENTS IN LIEU OF TAXES**

The District enters into property tax abatement agreements with local businesses under the Texas Property Redevelopment and Tax Abatement Act, Tax Code Chapter 312. Under the Act, the District may grant property tax abatements of a business’ property tax bill for the purpose of attracting new industries and to encourage the retention and development of existing businesses that are located within a reinvestment zone designated under Chapter 312, Texas Tax Code. The District has entered into tax abatement agreements for the development of wind powered electric power generating facilities (wind farms) located in Mitchell County, Texas. As a result, the District will forego assessment and collection of ad valorem property taxes on wind farms according to the terms of the agreements.

The District will start receiving payments in lieu of taxes in the amount of \$455,000 per year when the construction of the power plant is completed.



**MITCHELL COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2019 AND 2018**

**NOTE 18 – SUBSEQUENT EVENTS**

In April 2020, the District was notified that it has been approved for a loan in the amount of \$2,347,000 which was provided under Division A, Title 1, Section 1102 Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (“CAREs Act”). The provisions of the CAREs Act amend the Small Business Act (“SBA ACT”) to include a provision for the PPP. Beginning in April 2020, the PPP allows certain entities to apply for a loan to cover the cost of specific expenses incurred during the period February 15, 2020, through June 30, 2020 (“covered period”). The primary purpose of the loan is to provide small businesses the opportunity to maintain employment levels during the covered period. Under the provisions of the SBA Act, principal and interest payments are deferred for at least 6 months up to 1 year after disbursement. If the District submits sufficient documentation to the lender to support that the loan proceeds were used in accordance with the provisions of the SBA Act, the loan will be fully forgiven. If sufficient documentation is not provided, or the funds were not fully expended as required, the lender may determine that the loan, or a portion of it, will not be forgiven. If any portion of the loan is not forgiven, the loan will be payable over a period not to exceed 2 years at an interest rate of 1%.

The date to which events occurring after September 30, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is April 27, 2020, which is the date on which the financial statements were available to be issued.

**INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION**

Management and the Board of Directors  
Mitchell County Hospital District  
Colorado City, Texas

We have audited the financial statements of Mitchell County Hospital District as of and for the years ended September 30, 2019 and 2018, and our report thereon dated April 27, 2020, which express an unmodified opinion on those financial statements, appears on pages 25 through 30. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The financial information 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  
April 27, 2020

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2019**

**ASSETS:**

	Hospital	Nursing Home	EJE'S	Total
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 1,659,278	\$ 615,706	\$ -	\$ 2,274,984
Short-Term Investments	1,521,673	-	-	1,521,673
Assets Whose Use is Limited	-	23,011	-	23,011
Patient Accounts Receivable, Net	2,859,085	159,701	-	3,018,786
Estimated Third-Party Payor Settlements	674,610	-	-	674,610
Due from Nursing Home	3,963,809	-	(3,963,809)	-
Other Receivables	269,780	277,351	-	547,131
Inventory of Supplies	366,036	6,753	-	372,789
Prepaid Expenses and Other	2,099,580	-	-	2,099,580
Property Taxes Receivable	108,908	-	-	108,908
Total Current Assets	13,522,759	1,082,522	(3,963,809)	10,641,472
<b>ASSETS WHOSE USE IS LIMITED</b>	2,754,141	-	-	2,754,141
<b>CAPITAL ASSETS,</b>				
Net of Accumulated Depreciation	9,804,751	1,584,333	-	11,389,084
Total Assets	\$ 26,081,651	\$ 2,666,855	\$ (3,963,809)	\$ 24,784,697

See independent auditor's report on other financial information.

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2019**

**LIABILITIES AND NET POSITION:**

	Hospital	Nursing Home	EJE'S	Total
<b>CURRENT LIABILITIES</b>				
Current Portion of Long-Term Debt	\$ 720,716	\$ 564,906	\$ -	\$ 1,285,622
Accounts Payable	247,752	88,378	-	336,130
Accrued Payroll, and Related Liabilities	879,964	227,968	-	1,107,932
Self Funded Health Insurance	184,579	-	-	184,579
Due to Hospital	-	3,963,809	(3,963,809)	-
Other Accrued Liabilities	445,174	25,682	-	470,856
<b>Total Current Liabilities</b>	<b>2,478,185</b>	<b>4,870,743</b>	<b>(3,963,809)</b>	<b>3,385,119</b>
<b>LONG-TERM DEBT,</b>				
Long-Term Debt, Less Current Portion	2,885,864	-	-	2,885,864
<b>Total Liabilities</b>	<b>5,364,049</b>	<b>4,870,743</b>	<b>(3,963,809)</b>	<b>6,270,983</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	6,198,171	1,019,427	-	7,217,598
Unrestricted	14,519,431	(3,223,315)	-	11,296,116
<b>Total Net Position</b>	<b>20,717,602</b>	<b>(2,203,888)</b>	<b>-</b>	<b>18,513,714</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 26,081,651</b>	<b>\$ 2,666,855</b>	<b>\$ (3,963,809)</b>	<b>\$ 24,784,697</b>

See independent auditor's report on other financial information.

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**

**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

	Hospital	Nursing Home	EJE'S	Total
<b>OPERATING REVENUES:</b>				
Net Patient Service Revenue	\$ 13,782,888	\$ 3,697,545	\$ -	\$ 17,480,433
Premium Revenue	2,848,892	-	-	2,848,892
Other Operating Revenue	718,491	326,965	-	1,045,456
Total Operating Revenues	<u>17,350,271</u>	<u>4,024,510</u>	-	<u>21,374,781</u>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	9,093,073	1,865,474	-	10,958,547
Employee Benefits	1,866,470	458,180	-	2,324,650
Professional Fees and Purchased Services	4,180,776	870,315	-	5,051,091
Supplies	1,688,232	369,140	-	2,057,372
Other Operating	1,519,295	195,918	-	1,715,213
Depreciation and Amortization	949,312	95,595	-	1,044,907
Total Operating Expenses	<u>19,297,158</u>	<u>3,854,622</u>	-	<u>23,151,780</u>
Operating Income (Loss)	(1,946,887)	169,888	-	(1,776,999)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Property Tax Revenue	3,162,450	-	-	3,162,450
Noncapital Grants and Contributions	70,564	-	-	70,564
Indigent Care Support	2,148,140	-	-	2,148,140
Intergovernmental Transfer	(1,595,400)	-	-	(1,595,400)
Investment Income	104,363	11,116	-	115,479
Interest Expense	(142,973)	(18,772)	-	(161,745)
Gain on Disposal of Assets	15,845	801	-	16,646
Total Nonoperating Revenues (Expenses)	<u>3,762,989</u>	<u>(6,855)</u>	-	<u>3,756,134</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,816,102	163,033	-	1,979,135
Capital Grants and Contributions	<u>16,884</u>	-	-	<u>16,884</u>
Increase in Net Position	1,832,986	163,033	-	1,996,019
Net Position, Beginning of Year	<u>18,884,616</u>	<u>(2,366,921)</u>	-	<u>16,517,695</u>
Net Position, End of Year	<u>\$ 20,717,602</u>	<u>\$ (2,203,888)</u>	<u>\$ -</u>	<u>\$ 18,513,714</u>

See independent auditor's report on other financial information.

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2018**

**ASSETS:**

	Hospital	Nursing Home	EJE'S	Total
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents	\$ 2,951,275	\$ 170,086	\$ -	\$ 3,121,361
Short-Term Investments	274,033	-	-	274,033
Assets Whose Use is Limited	-	32,114	-	32,114
Patient Accounts Receivable, Net	2,502,471	369,992	-	2,872,463
Due from Nursing Home	3,652,793	-	(3,652,793)	-
Other Receivables	637,637	244,667	-	882,304
Inventory of Supplies	423,169	6,753	-	429,922
Prepaid Expenses and Other	1,586,790	-	-	1,586,790
Property Taxes Receivable	99,472	-	-	99,472
Total Current Assets	12,127,640	823,612	(3,652,793)	9,298,459
<b>ASSETS WHOSE USE IS LIMITED</b>	2,775,499	-	-	2,775,499
<b>CAPITAL ASSETS,</b>				
Net of Accumulated Depreciation	10,060,302	1,581,454	-	11,641,756
Total Assets	<b>\$ 24,963,441</b>	<b>\$2,405,066</b>	<b>\$ (3,652,793)</b>	<b>\$ 23,715,714</b>

See independent auditor's report on other financial information.

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2018**

**LIABILITIES AND NET POSITION:**

	Hospital	Nursing Home	EJE'S	Total
<b>CURRENT LIABILITIES</b>				
Current Portion of Long-Term Debt	\$ 685,677	\$ 97,101	\$ -	\$ 782,778
Accounts Payable	163,105	182,488	-	345,593
Accrued Payroll, and Related	902,961	240,322	-	1,143,283
Self Funded Health Insurance	84,579	-	-	84,579
Estimated Third-Party Payor Settlements	47,729	-	-	47,729
Due to Hospital	-	3,652,793	(3,652,793)	-
Other Accrued Liabilities	590,666	34,377	-	625,043
<b>Total Current Liabilities</b>	<b>2,474,717</b>	<b>4,207,081</b>	<b>(3,652,793)</b>	<b>3,029,005</b>
<b>LONG-TERM DEBT,</b>				
Long-Term Debt, Less Current Portion	3,604,108	564,906	-	4,169,014
<b>Total Liabilities</b>	<b>6,078,825</b>	<b>4,771,987</b>	<b>(3,652,793)</b>	<b>7,198,019</b>
<b>NET POSITION</b>				
Net Investment in Capital Assets	5,770,517	919,447	-	6,689,964
Unrestricted	13,114,099	(3,286,368)	-	9,827,731
<b>Total Net Position</b>	<b>18,884,616</b>	<b>(2,366,921)</b>	<b>-</b>	<b>16,517,695</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 24,963,441</b>	<b>\$ 2,405,066</b>	<b>\$ (3,652,793)</b>	<b>\$ 23,715,714</b>

See independent auditor's report on other financial information.

**MITCHELL COUNTY HOSPITAL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2018**

	<u>Hospital</u>	<u>Nursing Home</u>	<u>EJE'S</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>				
Net Patient Service Revenue	\$ 14,507,616	\$ 2,872,550	\$ -	\$ 17,380,166
Premium Revenue	2,791,218	-	-	2,791,218
Other Operating Revenue	588,998	141,576	-	730,574
Total Operating Revenues	<u>17,887,832</u>	<u>3,014,126</u>	-	<u>20,901,958</u>
<b>OPERATING EXPENSES:</b>				
Salaries and Wages	8,625,081	2,042,784	-	10,667,865
Employee Benefits	1,777,773	422,347	-	2,200,120
Professional Fees and Purchased Services	4,044,676	815,753	-	4,860,429
Supplies	1,596,747	493,955	-	2,090,702
Other Operating	1,528,955	210,205	-	1,739,160
Depreciation and Amortization	1,015,872	115,178	-	1,131,050
Total Operating Expenses	<u>18,589,104</u>	<u>4,100,222</u>	-	<u>22,689,326</u>
Operating Loss	(701,272)	(1,086,096)	-	(1,787,368)
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Property Tax Revenue	3,246,093	-	-	3,246,093
Noncapital Grants and Contributions	101,796	-	-	101,796
Indigent Care Support	2,167,182	-	-	2,167,182
Intergovernmental Transfer	(1,649,770)	-	-	(1,649,770)
Investment Income	88,130	3,419	-	91,549
Interest Expense	(175,862)	(21,633)	-	(197,495)
Gain on Disposal of Assets	11,571	1,850	-	13,421
Total Nonoperating Revenues (Expenses)	<u>3,789,140</u>	<u>(16,364)</u>	-	<u>3,772,776</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Contributions	3,087,868	(1,102,460)	-	1,985,408
Capital Grants and Contributions	<u>7,909</u>	<u>-</u>	<u>-</u>	<u>7,909</u>
Increase (Decrease) in Net Position	3,095,777	(1,102,460)	-	1,993,317
Net Position, Beginning of Year	<u>15,788,839</u>	<u>(1,264,461)</u>	<u>-</u>	<u>14,524,378</u>
Net Position, End of Year	<u>\$ 18,884,616</u>	<u>\$ (2,366,921)</u>	<u>\$ -</u>	<u>\$ 16,517,695</u>

See independent auditor's report on other financial information.



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**APPENDIX C**

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**FORM OF BOND COUNSEL'S OPINION**

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**Proposed Form of Opinion of Bond Counsel**

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

**MITCHELL COUNTY HOSPITAL DISTRICT  
GENERAL OBLIGATION BONDS, SERIES 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$\_\_\_\_\_**

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

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

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to governmental immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, 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 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 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 continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

Respectfully,



