

Dated: July 15, 2014

NEW ISSUE – BOOK-ENTRY-ONLY

Rating: Moody's: "Baa2"
(See "OTHER INFORMATION – Rating" herein)

In the opinion of Naman Howell Smith & Lee PLLC, Bond Counsel, assuming compliance with the covenants described herein, interest on the 2014A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the “Code”) from the gross income of the owners thereof for federal income tax purposes and is not a tax preference item for purposes of the alternative minimum tax. The District has taken no action to cause, and does not intend, interest on the 2014B Bonds to be excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. (See “TAX MATTERS” herein.)

\$32,200,000

REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
(Reagan County, Texas)

\$28,980,000 LIMITED TAX AND REVENUE BONDS, SERIES 2014A	\$3,220,000 LIMITED TAX AND REVENUE BONDS, TAXABLE SERIES 2014B
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Dated Date: August 1, 2014 (interest accrues from date of delivery) Due: February 1, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$28,980,000 Reagan Hospital District of Reagan County, Texas Limited Tax and Revenue Bonds, Series 2014A (the “2014A Bonds”) and \$3,220,000 Reagan Hospital District of Reagan County, Texas Limited Tax and Revenue Bonds, Taxable Series 2014B (the “2014B Bonds” and together with the 2014A Bonds, the “Bonds”) will accrue from the date on which they are first issued, authenticated and delivered to the initial purchaser thereof (the “Underwriter”), will be payable February 1 and August 1 of each year commencing February 1, 2015, until maturity, or prior redemption of the 2014A Bonds, 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 multiple 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 (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 Bank of Texas, Austin, Texas. (See “THE BONDS – Paying Agent/Registrar” herein).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution of the State of Texas (the “State”), Chapter 1088, Texas Special District Local Laws Code, an election held in the Reagan Hospital District of Reagan County, Texas (the “District”) on May 11, 2013, and an order authorizing each series of Bonds (together, the “Orders”) adopted by the Board of Directors of the District. The Bonds 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 Orders. 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. (See “THE BONDS – Authority for Issuance” and “THE BONDS – Tax Rate Limitations” herein). Payment of the Bonds is further secured by a pledge of the Net Revenues of the District’s hospital system.

THE DISTRICT IS ISSUING THE BONDS IN TWO SERIES: THE 2014A BONDS, WHICH, IN THE OPINION OF BOND COUNSEL, ARE TAX-EXEMPT BONDS DESCRIBED IN SECTION 103(A) OF THE CODE; AND THE 2014B BONDS, WHICH, IN THE OPINION OF BOND COUNSEL, ARE TAXABLE BONDS NOT DESCRIBED IN SECTION 103(a) OF THE CODE.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of constructing a new hospital, clinic, retail pharmacy and nursing home, and paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds. (See “THE BONDS – Plan of Finance” herein).

MATURITY SCHEDULE AND CUSIP NUMBERS (On Inside Cover)

The Bonds are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinions of the Attorney General of the State of Texas and the opinions of Naman Howell Smith & Lee PLLC, Waco, Texas, Bond Counsel. (See "APPENDIX C – FORMS OF BOND COUNSEL'S OPINIONS" attached hereto). Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Counsel for the Underwriter. It is expected that the Bonds will be available for delivery through DTC on August 5, 2014.



MATURITY SCHEDULE ⁽³⁾

\$28,980,000
REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
LIMITED TAX AND REVENUE BONDS,
SERIES 2014A

Maturity	Principal Amount	Interest Rate	Yield	CUSIP ⁽¹⁾
02/01/2019	\$860,000.00	2.500%	2.600%	755783AE7
02/01/2020	\$885,000.00	2.750%	2.900%	755783AF4
02/01/2021	\$910,000.00	3.250%	3.250%	755783AG2
02/01/2022	\$940,000.00	3.500%	3.550%	755783AH0
02/01/2023	\$975,000.00	3.750%	3.750%	755783AJ6
02/01/2024	\$1,065,000.00	4.500%	3.900%	755783AK3

\$5,925,000 5.000% Term Bond due February 1, 2029, Priced to Yield 4.550%⁽²⁾, CUSIP⁽¹⁾: 755783AL1
\$7,615,000 5.000% Term Bond due February 1, 2034, Priced to Yield 4.850%⁽²⁾, CUSIP⁽¹⁾: 755783AM9
\$9,805,000 5.125% Term Bond due February 1, 2039, Priced to Yield 5.050%⁽²⁾, CUSIP⁽¹⁾: 755783AN7

(Interest will accrue from the initial date of delivery to the Underwriter)

\$3,220,000
REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
LIMITED TAX AND REVENUE BONDS,
TAXABLE SERIES 2014B

\$3,220,000 3.000% Term Bond due February 1, 2018, Priced to Yield 3.000%, CUSIP⁽¹⁾: 755783AD9

(Interest will accrue from the initial date of delivery to the Underwriter)

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District nor the Underwriter takes any responsibility for the selection or accuracy of the CUSIP numbers set forth above.

⁽²⁾ Yield shown is to first available call date of February 1, 2024.

⁽³⁾ The District reserves the right, at its option, to redeem 2014A Bonds having stated maturities on and after February 1, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds – Optional Redemption of 2014A Bonds"). Additionally, the Term Bonds noted above are subject to mandatory sinking fund redemption as more particularly described herein (see "The Bonds – Mandatory Sinking Fund Redemption").

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.

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.

NEITHER THE DISTRICT NOR THE UNDERWRITER MAKES ANY 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 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.

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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 Reagan Hospital District of Reagan County, Texas (the “District”) is a political subdivision of the State of Texas, and the boundaries of the District are coextensive with the boundaries of the Reagan County Independent School District, as those boundaries existed on March 24, 1977. The District covers approximately 1,177 square miles. Creation of the District was confirmed by voter referendum on May 14, 1977. The District is governed by a six-member Board of Directors (the “Board”) elected for three-year terms. Directors are elected as follows: one director is elected from each County Commissioners precinct of Reagan County, and two directors are elected from the District at large. The Board appoints the Chief Executive Officer (the “CEO”) to oversee the day-to-day operations of the District. The Board also appoints to the hospital staff such doctors as it deems advisable and necessary, and employs such technicians, nurses and other staff as it deems necessary for the efficient operation of the District. (See “INTRODUCTION – Description of District” herein).
THE BONDS	<p>The Bonds mature on February 1 in each of the years and in the amounts shown on the inside cover of this Official Statement.</p> <p>The 2014A Bonds and the 2014B Bonds are separate and distinct securities offerings being issued and sold independently except for this common Official Statement, and while they share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, redemption provisions, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the obligations, and other features.</p>
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date on which they are first issued, authenticated and delivered to the Underwriter, and is payable February 1, 2015 and each August 1 and February 1 thereafter until maturity, or prior redemption of the 2014A Bonds. (See “THE BONDS” herein).
AUTHORITY FOR ISSUANCE	The Bonds are issued pursuant to the Constitution of the State of Texas (the “State”), Chapter 1088, Texas Special District Local Laws Code, an election held in the District on May 11, 2013, and an order authorizing each series of Bonds adopted by the Board of Directors of the District authorizing the issuance of the Bonds. The order authorizing the 2014A Bonds is referred to herein as the “2014A Bond Order” and the order authorizing the 2014B Bonds is referred to herein as the “2014B Bond Order” and collectively, the Orders. (See “THE BONDS – Authority for Issuance” herein).
SECURITY FOR THE BONDS	The Bonds 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 Orders. The Bonds are additionally secured by the Net Revenues of the District. (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 2014A Bonds having stated maturities on and after February 1, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “The Bonds – Optional Redemption of 2014A Bonds”). 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 – 2014A BONDS	In the opinion of Bond Counsel, under existing law, and assuming compliance with the tax covenants described herein, interest on the 2014A Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 (the “Code”) from the gross income of the owners thereof for federal income tax purposes and is not a specific preference item for purposes of the alternative minimum taxable income of the owners thereof for federal income tax purposes. (See “TAX MATTERS – THE 2014A BONDS” herein). The 2014A Bonds are not “qualified tax exempt obligations” under Section 265(b) of the Internal Revenue Code.
TAXABLE – 2014B BONDS.....	Interest to be paid on the 2014B Bonds is <u>not</u> excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. (See “TAX MATTERS – THE 2014B BONDS” herein).
PURPOSE	Proceeds from the sale of the Bonds will be used for the purposes of constructing a new hospital, clinic, retail pharmacy and nursing home, and paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds. (See “THE BONDS – Plan of Finance” herein).
RATING	Moody’s Investors Service, Inc. (“Moody’s”) has assigned a rating of “Baa2” to the Bonds. An explanation of the significance of such rating may be obtained from Moody’s. (See “OTHER INFORMATION – Rating” herein).
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 in payment of its bonds.

For additional information regarding the District, please contact:

Pam Clark, C.E.O.
Reagan Hospital District
805 North Main Avenue
Big Lake, Texas 76932
Phone: (325) 844-2561

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Name	Term Expires	Occupation	Board Position
Linda Rees	May 2017	Librarian	President
Ann W. Schneemann	May 2015	Retired Rancher	Vice-President
Joseph Sudolcan, MD	May 2017	Physician	Director
Sharon Campbell	May 2015	Office Manager	Director
Garry Goff	May 2017	School District Transportation	Director
Robin Russell	May 2015	Retired Nurse	Secretary

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length with District
Pam Clark	Chief Executive Officer	2 years
Kyle Rockwell	Chief Operating Officer	1 year
Karla Egger	Chief Financial Officer	4.5 years
Dayna Wade	Interim Chief Clinical Officer	2.5 years

CONSULTANTS AND ADVISORS

AuditorsBKD, LLP
Waco, Texas

Bond CounselNaman Howell Smith & Lee PLLC
Waco, Texas

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**OFFICIAL STATEMENT
RELATING TO
\$32,200,000
REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
(Reagan County, Texas)**

**\$28,980,000 LIMITED TAX AND REVENUE
BONDS, SERIES 2014A**

**\$3,220,000 LIMITED TAX AND REVENUE
BONDS, TAXABLE SERIES 2014B**

INTRODUCTION

This Official Statement, which includes the appendices hereto, provides certain information regarding the issuance of \$28,980,000 Reagan Hospital District of Reagan County, Texas Limited Tax and Revenue Bonds, Series 2014A (the "2014A Bonds") and \$3,220,000 Reagan Hospital District of Reagan County, Texas Limited Tax and Revenue Bonds, Taxable Series 2014B (the "2014B Bonds" and together with the 2014A Bonds, the "Bonds"). The order authorizing the 2014A Bonds is referred to herein as the "2014A Bond Order" and the order authorizing the 2014B Bonds is referred to herein as the "2014B Bond Order" and collectively, the Orders. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Orders adopted on the date of sale of the Bonds which authorized the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District.

DESCRIPTION OF THE DISTRICT

The Reagan Hospital District of Reagan County, Texas (the "District") is a political subdivision encompassing all of the area within the boundaries of the Reagan County Independent School District as those boundaries existed on March 24, 1977. The District covers approximately 1,177 square miles. Creation of the District was confirmed by voter referendum on May 14, 1977. The District is governed by a six-member Board of Directors (the "Board") elected for staggered three-year terms. The Board appoints the Chief Executive Officer (the "CEO") to oversee the day-to-day operations of the District. The Board also appoints to the hospital staff such doctors as it deems advisable and necessary, and employs such technicians, nurses and other staff as it deems necessary for the efficient operation of the District. (See "APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT" attached hereto).

THE BONDS

DESCRIPTION OF THE 2014A BONDS

The 2014A Bonds are dated August 1, 2014, and mature on February 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the 2014A Bonds will accrue from the date on which they are first issued, authenticated and delivered to the initial purchaser thereof (the "Underwriter"), will be computed on the basis of a 360-day year of twelve 30-day months and will be payable initially on February 1, 2015 and on each August 1 and February 1 thereafter until stated maturity or prior redemption. The definitive 2014A Bonds will be issued only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof 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 2014A Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the 2014A 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 2014A Bonds. (See "THE BONDS – Book-Entry-Only System" herein). The 2014A Bonds are tax-exempt obligations issued pursuant to the provisions of the 2014A Bond Order. (See "TAX MATTERS – THE 2014A BONDS" herein).

DESCRIPTION OF THE 2014B BONDS

The 2014B Bonds are dated August 1, 2014, and mature on February 1, 2018 as shown on the inside cover page hereof. Interest on the 2014B Bonds will accrue from the date on which they are first issued, authenticated and delivered to the initial purchaser thereof (the "Underwriter"), will be computed on the basis of a 360-day year of twelve 30-day months and will be payable initially on February 1, 2015 and on each August 1 and February 1 thereafter until stated maturity. The definitive 2014B Bonds will be issued only as fully registered bonds in denominations of \$5,000 or any integral multiple thereof 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 2014B Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the 2014B 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 2014B Bonds. (See “THE BONDS – Book-Entry-Only System” herein).

SEPARATE ISSUES

The 2014A Bonds and the 2014B Bonds are separate and distinct securities offerings being issued and sold independently except for this common Official Statement, and while they share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, redemption provisions, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the obligations, and other features.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the Constitution of the State of Texas (the “State”), Chapter 1088, Texas Special District Local Laws Code, an election held in the District on May 11, 2013, and the Orders adopted by the Board authorizing each series of Bonds.

PLAN OF FINANCE

Proceeds from the sale of the Bonds will be used for the purposes of constructing a new hospital, clinic, retail pharmacy and nursing home, and paying legal, fiscal and other costs of issuance in connection with the issuance of the Bonds.

SECURITY AND SOURCE OF PAYMENT

The Bonds 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 Orders. The Bonds will be additionally secured by the net revenues of the District. (See “THE BONDS – Tax Rate Limitations” herein).

The “net revenues” of the District constitute its operating revenues, less the District’s operating expenses. See Table 10 herein. (See also BONDHOLDERS RISKS – “Operating Risk”)

Under the terms of the Orders, the District will be obligated to levy ad valorem taxes in an amount sufficient to pay principal and interest on the Bonds in full (giving credit to any amounts already on deposit in the debt service fund for the Bonds), and holders of the Bonds should consider property taxes to be the primary source of payment and security for the Bonds.

TAX RATE LIMITATION

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt (including the Bonds) 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 creation election for the District, held on May 14, 1977, authorized the constitutional tax rate limit as the maximum tax rate of the District.

OPTIONAL REDEMPTION OF 2014A BONDS

The District reserves the right, at its option, to redeem 2014A Bonds having stated maturities on and after February 1, 2029 in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2024, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the 2014A Bonds are to be redeemed, the District may select the maturities of 2014A Bonds to be redeemed. If less than all the 2014A Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the 2014A Bonds are in Book- Entry-Only form) shall determine by lot the 2014A Bonds, or portions thereof, within such maturity to be redeemed. If a 2014A 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 2014A 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.

The 2014B Bonds are not subject to optional redemption prior to their stated maturity.

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MANDATORY SINKING FUND REDEMPTION

The 2014A Bonds maturing on February 1 in the years 2029, 2034 and 2039 (the “2014A 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 1, in the following years:

Term 2014A Bonds due February 1, 2029:

Mandatory Redemption Date: 2/1/2025	Principal Amount: \$1,070,000.00
Mandatory Redemption Date: 2/1/2026	Principal Amount: \$1,125,000.00
Mandatory Redemption Date: 2/1/2027	Principal Amount: \$1,180,000.00
Mandatory Redemption Date: 2/1/2028	Principal Amount: \$1,245,000.00
Mandatory Redemption Date: 2/1/2029*	Principal Amount: \$1,305,000.00

Term 2014A Bonds due February 1, 2034:

Mandatory Redemption Date: 2/1/2030	Principal Amount: \$1,375,000.00
Mandatory Redemption Date: 2/1/2031	Principal Amount: \$1,445,000.00
Mandatory Redemption Date: 2/1/2032	Principal Amount: \$1,520,000.00
Mandatory Redemption Date: 2/1/2033	Principal Amount: \$1,595,000.00
Mandatory Redemption Date: 2/1/2034*	Principal Amount: \$1,680,000.00

Term 2014A Bonds due February 1, 2039:

Mandatory Redemption Date: 2/1/2035	Principal Amount: \$1,765,000.00
Mandatory Redemption Date: 2/1/2036	Principal Amount: \$1,860,000.00
Mandatory Redemption Date: 2/1/2037	Principal Amount: \$1,955,000.00
Mandatory Redemption Date: 2/1/2038	Principal Amount: \$2,060,000.00
Mandatory Redemption Date: 2/1/2039*	Principal Amount: \$2,165,000.00

* Stated Maturity

The 2014B Bonds maturing on February 1, 2018 (the “2014B 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 1, in the following years:

Term Bonds due February 1, 2018:

Mandatory Redemption Date: 2/1/2015	Principal Amount: \$780,000.00
Mandatory Redemption Date: 2/1/2016	Principal Amount: \$790,000.00
Mandatory Redemption Date: 2/1/2017	Principal Amount: \$815,000.00
Mandatory Redemption Date: 2/1/2018*	Principal Amount: \$835,000.00

* Stated Maturity

The 2014A Term Bonds and the 2014B Term Bonds (collectively, 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 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (3) with respect to the 2014A Term Bonds, shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION

Not less than thirty days prior to a redemption date for the 2014A 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 2014A 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 2014A BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY 2014A BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

In the 2014A Bond Order, the District reserves the right in the case of an optional redemption to give notice of its election or direction to redeem 2014A 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 2014A 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.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is BOKF, N.A. dba Bank of Texas, Austin, Texas. In the Orders, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption of the 2014A Bonds 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.

AMENDMENTS

The District has reserved the right to amend the Orders as follows. The District may amend the Orders without the consent of or notice to any Registered Owner in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission in the Orders. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected by the proposed amendment, amend, add to, or rescind any of the provisions of the Orders; except that, without the consent of the Registered Owners of all of the Bonds so affected, no such amendment, addition, or rescission may (1) make any change in the maturity of any outstanding Bonds, (2) reduce the rate of interest borne by any of the outstanding Bonds, (3) reduce the amount of principal payable on any outstanding Bonds, (4) modify the terms of payment of principal of or interest on outstanding Bonds or any of them or impose any condition with respect to such payment or alter the pledge securing their payment, (5) modify the obligations of the District or Tax Collection Repository under the Instructions to Fund Custodian, or (6) change the minimum percentage of the principal amount of the Bonds necessary for consent to any such amendment. If at any time the District shall desire to amend the Orders, the District shall send by U.S. mail to each registered owner of the affected Bonds a copy of the proposed amendment.

Upon the adoption of any amendatory order, the Orders shall be deemed to be modified and amended in accordance with such amendatory order, and the respective rights, duties, and obligations of the District and all holders of such affected Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment. For the purposes of establishing ownership of the Bonds, the District shall rely solely upon the registration of the ownership of such Bonds on the registration books kept by the Paying Agent/Registrar (see "Book-Entry-Only System").

DEFEASANCE

If the District shall pay or cause to be paid, or there shall otherwise be paid to the Registered Owners, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated below, then the pledge of taxes levied under the Orders and all covenants, agreements, and other obligations of the District to the Registered Owners shall thereupon cease, terminate, and be discharged and satisfied.

The Bonds or any principal amount thereof shall be deemed to have been paid and no longer outstanding within the meaning and with the effect expressed above in this Section when payment of principal of and interest on such Bonds to their stated maturity or redemption has been made or provided for by depositing with the Paying Agent, in trust, any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities having such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment. "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of any agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are

rated as to investment quality by a nationally recognized investment rating firm no less than “AAA” or its equivalent, and (C) noncallable obligations of a state or an agency or a district, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

Upon such deposit as described above, the Bonds shall no longer be regarded to be outstanding or unpaid for purposes of applying any limitation or indebtedness. 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 2014A Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the 2014A 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 2014A Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the 2014A 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, the Financial Advisor 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.

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 2014A 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 Orders 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 set forth in the Orders and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" below.

SOURCES AND USES OF PROCEEDS

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

Sources of Funds	2014A Bonds	2014B Bonds	Total
Par Amount of Bonds	\$28,980,000.00	\$3,220,000.00	\$32,200,000.00
Net Reoffering Premium	381,172.60	—	381,172.60
Total Sources of Funds	\$29,361,172.60	\$3,220,000.00	\$32,581,172.60
Uses of Funds	2014A Bonds	2014B Bonds	Total
Deposit for Project Fund	\$28,823,372.60	\$3,158,080.00	\$31,981,452.60
Underwriters' Discount	434,700.00	48,300.00	483,000.00
Cost of Issuance	103,100.00	13,620.00	116,720.00
Total Application of Funds	\$29,361,172.60	\$3,220,000.00	\$32,581,172.60

BONDHOLDERS' RISKS

The District is subject to numerous known and unknown risks, many of which are described below and elsewhere in this Official Statement. Any of the events described below could have a material adverse effect on the District's ability to make timely payments on the Bonds. Additional risks and uncertainties may exist that the District is not aware of or that it currently deems to be immaterial. The Bonds are additionally secured by the net revenues from the District's operations, but are not secured by a mortgage of or security interest in any tangible property of the District.

OPERATING RISK

In each of the past five fiscal years, the District has reported a net operating loss, which is consistent with the District's operating history. The District provides medical care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for hospital districts in Texas. The amounts of the District's operating losses for fiscal years ending September 30, 2010, 2011, 2012 and 2013 were \$2,163,640, \$2,865,221, \$2,943,181 and \$3,126,160, respectively. The increase in operating losses from fiscal year 2012 to fiscal year 2013 is primarily attributable to an increase in net patient service revenue, an increase in purchased services and professional fees and an increase in salaries, wages, and employee benefits for the District's employees.

The District's operating revenues are supplemented by certain non-operating revenues, consisting mainly of ad valorem taxes, a portion of which is used to support operations (approximately \$3,621,058 for fiscal year 2013). Taking into account non-operating revenues, as well as capital grants and contributions, the District experienced an overall increase in net assets for fiscal year ending September 30, 2013 in the amount of \$535,803, which represents an increase of \$182,979, or 6%, as compared to 2012.

If for any reason the District should cease to operate, District or county officials would still be obligated to levy ad valorem taxes to pay debt service the Bonds, subject to the limitations discussed below under "Bondholders' Remedies."

See also "OTHER INFORMATION – Litigation" herein.

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 Orders, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Orders, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Orders 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 Orders do not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Orders, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. 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 Orders covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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.

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REGISTRATION, TRANSFER AND EXCHANGE

PAYING AGENT/REGISTRAR

Bank of Texas, Austin, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Orders 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.

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), and such interest will be paid (i) by check sent United States mail, first class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds at maturity will be paid to the registered owner at the stated maturity upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that 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. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

FUTURE REGISTRATION

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 fifteenth business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for thirty 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 fifteen 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 2014A 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 2014A 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

AD VALOREM TAX LAW

The appraisal of property within the District is the responsibility of the Reagan 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 Texas Tax Code (the "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, and 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 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.

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

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, the surviving spouse of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

By the later of September 30 or the 60th day after the date the certified appraisal roll is received by the District, the Board of Directors must adopt the annual tax rate for the District. If the District does not adopt a tax rate by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the District for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under Tax Code, the District must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. The Board of Directors of the District may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Tax Code. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the District by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

“Effective tax rate” means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). “Adjusted” means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values. The effective rate may also be adjusted to allow for increases in expenditures related to mandated indigent health care.

“Rollback tax rate” means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Tax Code provides that certain cities, counties and hospital districts in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. The District is not authorized by State law to collect such tax. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the 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 Reagan County Appraisal District. 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. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty from six percent (6%) to twelve percent (12%) of the amount of the tax, depending on the time of payment, and accrued interest at the rate of one percent (1%) per month. If the tax is not paid by the following July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the District. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Penalty</u>	<u>Cumulative</u>	
		<u>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, State law allows that, if an account is delinquent in July, an amount of up to 20% attorney's collection fee may be added to the total tax penalty and interest charge.

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.

ROLLBACK PETITION

Section 26.07 of the Property Tax Code provides voters desiring to roll back the tax levy with the guidelines for a valid petition and provides for 90 days for the collection of signatures of at least 7% of the registered voters in the jurisdiction according to the most recent

official list of registered voters if the tax rate adopted for the current tax year would impose taxes for maintenance and operation expenses of \$5 million or more or at least 10% if the current year's tax rate is for maintenance and operation expenses of less than \$5 million. The petition must be presented to the governing body of the jurisdiction on or before the 90th day after the tax levy. The governing body then has 20 days from the presentation of the petition to determine the validity of the petition and pass a resolution stating its finding. If the governing body determines that the petition is valid or it fails to act on the petition within such 20-day period an election must be called not less than 30 or more than 90 days on the question of rolling back the tax rate.

DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The District grants an exemption of 100% to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The District does grant the following percentage discounts for the early payment of property taxes: 3% discount for taxes paid in October, 2% discount for taxes paid in November and 1% discount for taxes paid in December.

The District does grant an additional exemption of 20% of the market value of residence homesteads. The District grants an additional exemption of 100% of the market value of residence homesteads for residents age 65 and older.

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

The District does not tax non-business personal property; and Reagan Appraisal District collects taxes for the District.

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

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

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

The District does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The District has not adopted a tax abatement policy.

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2013 Market Valuation Established by Reagan County Appraisal District ⁽¹⁾	\$2,834,679,473
Less Exemptions/Reductions at 100% Market Value	
Homestead and Over 65 Exemptions	\$18,110,239
Disabled and Veteran Exemption	\$378,158
Local Discount	\$17,370,608
Productivity Loss	\$303,493,143
Value under Protest	\$31,507,200
2013 Net Taxable Assessed Valuation ⁽²⁾	\$2,463,820,125
Debt Payable from Ad Valorem Taxes (as of 9/30/2014) ⁽³⁾	\$32,200,000
Percentage of Tax Supported Debt to Taxable Assessed Valuation	1.307%
2010 Census Population for Reagan County ⁽⁴⁾ – 3,367	
Per Capita Taxable Assessed Valuation - \$731,755	

⁽¹⁾ Excludes totally exempt property.

⁽²⁾ As reported by the Reagan Appraisal District; subject to change during the ensuing year.

⁽³⁾ Includes the Bonds.

⁽⁴⁾ As reported by the United States 2010 Decennial Census.

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TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30					
	2014		2013		2012	
	Amount	% of Total NTV	Amount	% of Total NTV	Amount	% of Total NTV
Residential Single Family Homes	59,943,335	2.433%	54,057,084	2.171%	49,030,730	2.436%
Residential Multi-Family Homes	430,786	0.017%	387,954	0.016%	285,139	0.014%
Vacant Land	2,302,196	0.093%	1,893,138	0.076%	1,510,180	0.075%
Agricultural Land	16,035,383	0.651%	14,139,391	0.568%	14,973,069	0.744%
Farm & Ranch Improvements	4,538,010	0.184%	4,954,276	0.199%	4,512,968	0.224%
Commercial & Industrial Land	83,201,267	3.377%	69,559,279	2.794%	60,716,195	3.017%
Oil, Gas and Mineral Reserves	2,057,227,430	83.497%	2,109,473,250	84.720%	1,690,507,310	83.996%
Real and Tangible Pers. Prop. (utilities)	167,851,850	6.813%	146,131,530	5.869%	127,860,810	6.353%
Commercial & Industrial Pers. Prop.	122,299,180	4.964%	98,545,307	3.958%	68,090,297	3.383%
Tangible Personal Property (misc)	4,051,206	0.164%	2,594,001	0.104%	2,097,667	0.104%
Special Property (Inventory)	65,715	0.003%	22,521	0.001%	21,891	0.001%
Totally Exempt Property	13,239,972	0.537%	11,334,581	0.455%	9,207,902	0.458%
Total Before Exemptions	2,531,186,330	100%	2,513,092,312	100%	2,028,814,158	100%
Less: Total Exemptions/Reductions	67,366,205		23,147,718		16,199,829	
Net Taxable Assessed Value (NTV)	<u>2,463,820,125</u>		<u>2,489,944,594</u>		<u>2,012,614,329</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30			
	2011		2010	
	Amount	% of Total NTV	Amount	% of Total NTV
Residential Single Family Homes	45,902,417	2.539%	44,339,716	2.916%
Residential Multi-Family Homes	285,139	0.016%	285,651	0.019%
Vacant Land	1,353,089	0.075%	1,365,035	0.090%
Agricultural Land	15,595,173	0.863%	15,079,082	0.992%
Farm & Ranch Improvements	4,002,653	0.221%	3,416,771	0.225%
Commercial & Industrial Land	70,170,816	3.882%	37,438,939	2.462%
Oil, Gas and Mineral Reserves	1,490,396,850	82.442%	1,233,685,920	81.134%
Real and Tangible Pers. Prop. (utilities)	131,718,380	7.286%	136,941,970	9.006%
Commercial & Industrial Pers. Prop.	49,130,055	2.718%	50,324,609	3.310%
Tangible Personal Property (misc)	1,791,234	0.099%	1,728,693	0.114%
Special Property (Inventory)	24,710	0.001%	24,710	0.002%
Totally Exempt Property	8,916,729	0.493%	8,184,469	0.538%
Total Before Exemptions	1,819,287,245	100%	1,532,815,565	100%
Less: Total Exemptions/Reductions	11,477,960		12,265,089	
Net Taxable Assessed Value (NTV)	<u>1,807,809,285</u>		<u>1,520,550,476</u>	

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

ECONOMIC CONCENTRATION RISK: As shown above, a substantial amount of the District's tax bases is concentrated in the oil and gas industry and represent approximately 83.5% of the total taxable assessed valuation of the District for the 2013/14 tax year. 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. 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.

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2010	3,367	\$1,520,550,476	\$451,604	—	0.000%	—
2011	3,390	\$1,807,809,285	\$533,277	—	0.000%	—
2012	3,475	\$2,012,614,329	\$579,170	—	0.000%	—
2013	3,475	\$2,489,944,594	\$716,531	—	0.000%	—
2014	3,475	\$2,463,820,125	\$709,013	\$32,200,000 ⁽³⁾	1.307% ⁽³⁾	\$9,266 ⁽³⁾

⁽¹⁾ Population shown is for Reagan County, Texas Source: Texas Workforce Commission and United States Census Bureau.

⁽²⁾ As reported by the Reagan Appraisal District; subject to change during the year.

⁽³⁾ Includes the Bonds.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Total Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy ⁽¹⁾	% Current Collections ⁽¹⁾	% of Total Collections ⁽¹⁾
2010	\$0.140000	\$0.140000	—	\$2,076,716	N/A	N/A
2011	\$0.127034	\$0.127034	—	\$2,253,012	N/A	N/A
2012	\$0.125147	\$0.125147	—	\$2,544,951	N/A	N/A
2013	\$0.145566	\$0.145566	—	N/A	N/A	N/A
2014	\$0.215965	\$0.147842	\$0.068123	N/A	N/A	N/A

⁽¹⁾ As reported by the Issuer and the Reagan County Appraisal District; subject to change during the year.

TABLE 5 – TEN LARGEST TAXPAYERS (FISCAL YEAR 2013-14)

Name of Taxpayer	Nature of Property	2013 Taxable Assessed Valuation	% Total Taxable Assessed Valuation
Pioneer Natural Res Inc	Oil & Gas	\$358,155,780	14.59%
Laredo Petroleum-Dallas Inc	Oil & Gas	347,777,910	14.16%
Apache Corporation	Oil & Gas	262,014,150	10.67%
Endeavor Energy Resources LLC	Oil & Gas	136,780,990	5.57%
Texas Scottish Rite Hospital	Hospital	128,064,979	5.22%
Atlas Pl- Midcont West Tx LLC	Oil & Gas	116,542,598	4.75%
Sugg Calvin H Jr	Oil & Gas	70,248,240	2.86%
Prime Operating Company	Oil & Gas	66,440,400	2.71%
BTA Oil Producers	Oil & Gas	36,850,510	1.50%
John L. Cox	Oil & Gas	30,537,140	1.24%
		<u>\$1,553,412,697</u>	<u>63.27%</u>

ECONOMIC CONCENTRATION RISK: As shown above, all of the top ten largest taxpayers in the District are concentrated in the oil and gas industry and represent approximately 63% of the total taxable assessed valuation of the District for the 2013/14 tax year. 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 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.

DEBT INFORMATION

TABLE 6 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS FOR THE BONDS ⁽¹⁾

Fiscal Year End 9/30	Principal	Interest	Total Annual Debt Service
2015	\$780,000	\$1,440,885.08	\$2,220,885.08
2016	790,000	1,433,656.26	2,223,656.26
2017	815,000	1,409,581.26	2,224,581.26
2018	835,000	1,384,831.26	2,219,831.26
2019	860,000	1,361,556.26	2,221,556.26
2020	885,000	1,338,637.51	2,223,637.51
2021	910,000	1,311,681.26	2,221,681.26
2022	940,000	1,280,443.76	2,220,443.76
2023	975,000	1,245,712.51	2,220,712.51
2024	1,065,000	1,203,468.76	2,268,468.76
2025	1,070,000	1,152,756.26	2,222,756.26
2026	1,125,000	1,097,881.26	2,222,881.26
2027	1,180,000	1,040,256.26	2,220,256.26
2028	1,245,000	979,631.26	2,224,631.26
2029	1,305,000	915,881.26	2,220,881.26
2030	1,375,000	848,881.26	2,223,881.26
2031	1,445,000	778,381.26	2,223,381.26
2032	1,520,000	704,256.26	2,224,256.26
2033	1,595,000	626,381.26	2,221,381.26
2034	1,680,000	544,506.26	2,224,506.26
2035	1,765,000	457,278.13	2,222,278.13
2036	1,860,000	364,387.50	2,224,387.50
2037	1,955,000	266,628.13	2,221,628.13
2038	2,060,000	163,743.76	2,223,743.76
2039	2,165,000	55,478.13	2,220,478.13
	<u>\$32,200,000</u>	<u>\$23,406,782.17</u>	<u>\$55,606,782.17</u>

⁽¹⁾ Does not include obligations described under “Table 10 – Other Obligations” herein.

TABLE 7 – TAX ADEQUACY ⁽¹⁾

2014-15 Tax Supported Debt Service Requirements.....	\$2,220,885.08
\$0.0950 Tax Rate at 95% Collection produces.....	\$2,223,597.66
Average Annual Debt Service Requirements.....	\$2,270,694.37
\$0.0971 Tax Rate at 95% Collection Produces.....	\$2,272,750.87
Maximum Tax Supported Debt Service Requirements (FYE 2024).....	\$2,268,468.76
\$0.0970 Tax Rate at 95% Collection Produces.....	\$2,270,410.25

⁽¹⁾ Based on the District's 2013/14 net taxable valuation of \$2,463,820,125.

NOTE: TAX RATE LIMITATION. The District's ability to issue general obligation debt is limited by tax rate limitations imposed on the District by the Texas Constitution and the May 14, 1977 election that authorized the creation of the District, each of which limits the District's ad valorem tax rate for all purposes, including maintenance and operations and the payment of debt service, to \$0.75 per \$100 of valuation.

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 other than the Bonds. 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

As of September 30, 2013, 2012 and 2011, the District had \$441,350, \$603,513 and \$95,475, respectively, in long-term debt outstanding. The District issued no new long-term debt in 2012 and \$52,643 in 2011. The District incurred a note payable in the amount of \$700,000 on March 30, 2012 with an interest rate of 2.93% for the purpose of purchasing new equipment for the hospital. On September 20, 2013, the District paid off the prior note and obtained a new note payable with available principal of up to \$1,504,000. The note is payable on demand, but if no demand is made then in monthly installments of \$27,567 for principal and interest at a rate of prime plus 0.5%, 3.75% as of September 30, 2013. The loan was obtained for purchase of new equipment.

The District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2013, 2012 and 2011, totaled \$83,663 net of accumulated depreciation of \$90,204, \$108,501 net of accumulated depreciation of \$65,366 and \$40,528, respectively. Each lease has a term of 60 months. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 8.67% to 16.30% together with the present value of the future minimum lease payments as of September 30, 2012:

<u>Fiscal Year</u> <u>Ending</u>	<u>Payment</u>
September 30, 2014	\$23,667
September 30, 2015	\$1,584
Total Min. Payment	\$25,251
Less Interest	\$1,342
Present Value of Future Payments	\$23,909

DEFINED BENEFIT PENSION FUND

The District sponsors a defined benefit pension plan for eligible employees within a cost-sharing multiemployer retirement program sponsored by the Texas County and District Retirement System (TCDRS), who is the plan administrator. The plan's assets are invested as a portion of the TCERS's master pension trust fund. The plan provides retirement, death and disability benefits. Amendments to the plan are made only with the authority of the District's Board. The plan issues a stand-alone financial report that may be obtained from the TCERS website or by writing TCERS at P.O. Box 2034, Austin, Texas 78768-2034.

Participants can retire at age 60 and above with eight or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equal 75 or more. Participants are vested after ten years of service, but must leave their accumulated

deposits in the plan to receive any District-financed benefit. Participants who withdraw their personal deposits in a lump-sum are not entitled to any amounts contributed by the District.

The District has elected the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. Plan members are required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate; the rate was 8.57% of annual covered payroll for both 2013 and 2012, respectively.

As of December 31, 2012, the most recent actuarial valuation date, the plan was 92.11% funded. The actuarial accrued liability for benefits was \$3,773,731 and the actuarial value of assets was \$3,475,923, resulting in an underfunded actuarial accrued liability (OAAL) of \$297,808. The covered payroll (annual payroll of active employees covered by the plan) was \$2,188,082 and the ratio of the OAAL to the covered payroll was 13.61%. The following table illustrates the trends with respect to the District's funding of its pension liability under TCDRS for the last two valuation years for which audited information is available from TCDRS:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Annual Covered Payroll</u>	<u>Accrued Liability as a % of Covered Payroll</u>
12/31/2010	2,883,886	3,255,751	88.58%	371,865	2,335,955	15.92%
12/31/2011	3,064,570	3,382,716	90.59%	318,146	2,264,775	14.05%
12/31/2012	3,475,923	3,773,731	92.11%	297,808	2,188,082	13.61%

Source: Texas County and District Retirement System.

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FINANCIAL INFORMATION

TABLE 10 – SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Fiscal Year Ended September 30				
	2013	2012	2011	2010	2009
OPERATING REVENUES					
Net Patient Service Revenue ⁽¹⁾	4,289,620 ⁽³⁾	3,537,489 ⁽⁴⁾	3,605,787 ⁽⁵⁾	3,911,807 ⁽⁶⁾	2,707,059 ⁽⁷⁾
Other Operating Revenue	992,388	740,158	192,683	107,304	49,570
Total Operating Revenue	5,282,008	4,277,647	3,798,470	4,019,111	2,756,629
OPERATING EXPENSES					
Salaries and Wages	3,007,835	2,698,655	2,514,176	2,567,503	1,714,953
Employee Benefits	783,563	726,916	758,297	821,721	653,603
Medical Supplies and Drugs		—	—	259,610	—
Medical Services		—	—	1,198,652	—
Insurance		—	—	57,837	—
Purchased services and professional fees	2,126,065	1,777,444	1,657,789		883,374
Supplies and other	2,005,480	1,493,710	1,520,401		977,700
Other		—	—	871,114	—
Maintenance and Repairs		—	—	49,396	—
Depreciation and amortization	485,225	524,103	213,028	172,432	152,912
Total Operating Expenses	8,408,168	7,220,828	6,663,691	6,182,751	4,382,542
OPERATING REVENUE (LOSS)	(3,126,160)	(2,943,181)	(2,865,221)	(2,163,640)	(1,625,913)
NON OPERATING REVENUE					
Ad Valorem Taxes ⁽²⁾	3,621,058	2,544,951	2,253,012	2,076,716	1,071,529
Interest Income	2,182	2,162	3,585	3,759	17,157
Interest Expense	(9,368)	(11,972)	(17,449)	(7,218)	—
Intergovernmental Transfers			708,593	—	—
Tax Settlement Revenue		—	—	—	47,135
Tax Collection Expense		—	—	(36,907)	—
Non-Capital Grants and Contributions	3,651	59,987	9,575	142,803	293,626
Indigent Care Affiliation Funding		(200,000)			
Other non-operating revenue	44,440				
Total Non Operating Revenue	3,661,963	2,395,128	2,957,316	2,179,153	1,429,447
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	535,803	(548,053)	92,095	15,513	(196,466)
Capital Grants and Contributions		100,000	41,606	—	—
INCREASE(DECREASE) IN NET ASSETS	535,803	(448,053)	133,701	15,513	(196,466)
NET ASSETS – Beginning of Year	3,988,889	4,436,942	4,303,241	4,600,229	4,796,695
Prior Period Adjustment		—	2	(312,503)	—
NET ASSETS – End of Year	4,524,692	3,988,889	4,436,942	4,303,239	4,600,229

(1) The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known

(2) The ad valorem tax revenue collected for the fiscal years shown represents the District's ad valorem tax levy for only maintenance and operations purposes. After the issuance of the Bonds, the District is required to include in its annual tax levy an amount sufficient to pay debt service of the Bonds, which amount is in addition to the taxes levied for maintenance and operations. See "THE BONDS – Tax Rate Limitation" herein.

(3) Net patient service revenue, net of provision for uncollectible accounts \$371,755.

(4) Net patient service revenue, net of provision for uncollectible accounts \$1,381,834.

(5) Net patient service revenue, net of provision for uncollectible accounts \$853,664.

(6) Net patient service revenue, net of provision for bad debt of \$482,689.

(7) Net of provision for bad debts of \$193,849.

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 Note 1 to the District’s Annual Financial Report attached hereto as “APPENDIX B”.

INVESTMENTS

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

LEGAL INVESTMENTS

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on 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, (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) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or branch office in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clause (13) or in any other manner and amount provided by law for District deposits, and in addition (b) the District is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State and that participates in the Certificate of Deposit Account Registry Service® network (CDARS®) and as further provided by State law, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1) and require the security being purchased by the District to be pledged to the District, held in the District’s name and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer or a financial institution doing business in the State, (8) bankers’ acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least A-1 or P-1 or the equivalent by at least (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank, (10) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission (the “SEC”) that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, (11) no-load mutual fund registered with the SEC that: have an average weighted maturity of less than two years; invest exclusively in obligations described in the preceding clauses and clause (13), and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent or no lower than investment grade with a weighted average maturity no greater than 90 days, and (13) bonds issued, assumed or guaranteed by the State of Israel. State law also permits the District to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

Entities such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized including accrued income, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and clause (13) above, (b) pledged 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 (5) and clause (13) above, clause (9) above and clauses (10) and (11) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated by such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District 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 11 – CURRENT INVESTMENTS

As of February 15, 2014, the District's investable funds were invested as follows:

<u>Description</u>	<u>Amount on</u> <u>February 15, 2014</u>	<u>Amount on</u> <u>September 30, 2013</u>	<u>Amount on</u> <u>September 30, 2012</u>	<u>Amount on</u> <u>September 30, 2011</u>
Certificates of Deposit	—	\$8,329.77	\$592,333	\$1,434,748
TexPool ⁽¹⁾	\$102,503.23	\$102,489.46		

(1) Local government investment pool for Texas political subdivisions.

TAX MATTERS

THE 2014A BONDS

Tax Exemption...On the date of initial delivery of the 2014A Bonds, Naman, Howell, Smith & Lee, PLLC, Waco, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published fillings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the 2014A Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the 2014A Bonds will not be treated as "specific 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 2014A Bonds. See Appendix C - Forms of Bond Counsel's Opinions.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the 2014A Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the 2014A

Bonds and the source of repayment of the 2014A Bonds, limitations on the investment of proceeds of the 2014A Bonds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds of the 2014A Bonds be paid periodically to the United States, and a requirement that the District file an information report with the Internal Revenue Service. The District has covenanted in the 2014A Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the 2014A Bond Order pertaining to those sections of the Code that affect the exclusion from gross income of interest on the 2014A Bonds for federal income tax purposes and, in addition, will rely on representations by the District and the Underwriters (including representations in a tax certificate to be delivered in connection with the issuance of the 2014A Bonds) with respect to matters within the knowledge of the District and the Underwriters, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the 2014A Bond Order or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the 2014A Bonds could become taxable from the date of delivery of the 2014A Bonds, regardless of the date on which the event causing such taxability occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC) includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the 2014A Bonds, is included in a corporation's "adjusted current earnings," ownership of the 2014A Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the 2014A Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 bonds 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 2014A Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the 2014A Bonds may not have a right to participate in such audit. Public awareness of any future audit of the 2014A Bonds could adversely affect the value and liquidity of the 2014A Bonds during the pendency of the audit regardless of the ultimate outcome of the audit. No additional interest will be payable upon any determination of taxability.

Additional Federal Income Tax Considerations

Tax Accounting Treatment of Original Issue Premium

If the issue price of any portion of the 2014A Bonds exceeds the stated redemption price payable at maturity of such 2014A Bonds, such 2014A Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount Bonds

If the issue price of any portion of the 2014A Bonds is less than the stated redemption price payable at maturity of such 2014A Bonds (the "Original Issue Discount Bonds"), the difference between (i) the amount payable at the maturity of each Original Issue Discount Bonds, and (ii) the initial offering price to the public of such Original Issue Discount Bonds constitutes original issue discount with respect to such Original Issue Discount Bonds in the hands of any owner who has purchased such Original Issue Discount Bonds in the initial public offering of the 2014A Bonds. Generally, such initial owner 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 Bonds equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bonds continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the 2014A Bonds under the captions "TAX MATTERS – The 2014A Bonds - Tax Exemption" and "TAX MATTERS – The 2014A Bonds - Additional Federal Income Tax

Considerations - Collateral Federal Income Tax Consequences" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (a) the Underwriter has purchased the 2014A Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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 2014A 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 Bonds 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 2014A Bonds.

The federal income tax consequences of the purchase, ownership, and 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 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.

The federal income tax consequences of the purchase, ownership, and 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 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 2014A Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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 2014A BONDS.

Interest on the 2014A Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code. Section 55 of the Code imposes a tax equal to 20 percent for corporations, or 26 percent for non corporate taxpayers (28 percent for taxable excess exceeding \$175,000), of the taxpayer's "alternative minimum taxable income," if the amount of such alternative minimum tax is greater than the taxpayer's regular income tax for the taxable year.

Interest on the 2014A Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively connected earnings and profits of a foreign corporation doing business in the United States.

Under section 6012 of the Code, holders of tax-exempt bonds, such as the 2014A 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 2014A 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 2014A Bonds, although for this purpose, a de minimis amount of market discount is ignored. A "market discount obligation" is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of an obligation 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 2014A Bonds bears to the number of days between the acquisition date and the final maturity date.

THE 2014A BONDS ARE NOT "QUALIFIED TAX EXEMPT OBLIGATIONS" (i.e., BANK QUALIFIED BONDS) UNDER SECTION 265 OF THE CODE.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the 2014A Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the 2014A Bonds under Federal or state law and could affect the market price or marketability of the 2014A 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 2014A Bonds should consult their own tax advisors regarding the foregoing matters.

Non-Bank Qualified

The 2014A Bonds are not "qualified tax exempt obligations" under Section 265(b) of the Internal Revenue Code.

THE 2014B BONDS

Interest on the Series 2014B Bonds is not excluded from gross income for purposes of federal income taxation.

CONTINUING DISCLOSURE OF INFORMATION

In the Orders, 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.

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 through 11 and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2014.

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

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March in 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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in 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.

AVAILABILITY OF INFORMATION

The District has employed Bank of Texas, Austin, Texas to serve as the agent for filing the information described above under "Annual Reports" and "Notices of Certain Events." The District remains responsible for providing such information on a timely basis to Bank of Texas.

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.

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 any continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATING

The Bonds are presently rated "Baa2" by Moody's Investors Service, Inc. ("Moody's"), without regard to any credit enhancement. An explanation of the significance of such a rating may be obtained from Moody's. The rating of the Bonds by Moody's reflects only the view of said company at the time the rating is given, and the District makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely

by Moody's, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

LITIGATION

Except as described below, 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).

A substantial amount of the District's local economy is concentrated in the oil and gas industry. The District recently was a party to an administrative proceeding before the Railroad Commission of Texas related to a permit application for a salt water disposal well. In the fall of 2013, a landowner had applied to permit a saltwater disposal well on a site approximately 700 feet from the Project site; the well would serve as a disposal site for saltwater produced during oil and gas extraction and hydraulic fracturing flowback fluid. The District opposed the permit application on grounds that, among other reasons, the proximity of the well could pose a safety hazard in the event of fire at the well-site or from the emission of noxious odors. The proposed site could also contaminate underground water sources. The District currently purchases treated water from the City of Big Lake and would use ground water solely for irrigation. Truck traffic transporting materials to the disposal well could additionally cause noise pollution. The applicable provision of the Texas Administrative Code provides that: "[n]ew hospitals and additions to existing hospitals shall not be built within 300 feet of above ground or underground storage tanks containing liquid petroleum or other flammable liquids used in connection with a bulk plant, marine terminal, aircraft refueling, bottling plant of a liquefied petroleum gas installation, or near other hazardous or hazard producing plants." On July 9, 2014, the Railroad Commission of Texas issued an order denying the well permit; the order of the Railroad Commission is not final and effective until twenty days after the parties were notified of the order. The landowner could appeal the order of the Railroad Commission, but the District is not aware of any appeal having been filed. Prior to the order of the Railroad Commission, the District had received communication from Texas agencies responsible for licensing and permitting the District, including the Texas Department of State Health Services and Texas Department of Aging and Disability Services, that the location of the proposed well would not negatively impact the hospital, its operations, nor its licenses and permits. Accordingly, even if the landowner successfully appeals the order of the Railroad Commission, the District administration does not believe it will negatively impact the Project, the District or its operations.

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. (See "OTHER INFORMATION – Rating" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The District will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State approving the Initial Bonds 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 opinions of Bond Counsel, to like effect and to the effect that the interest on the 2014A 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 and is not an item of preference for purposes of the federal alternative minimum tax, subject to the matters described under "TAX MATTERS" herein. Forms of such opinions are 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. 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 "Book-Entry-Only System," "Bondholders' Remedies," 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 Orders. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery 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 McCall, Parkhurst & Horton L.L.P., Dallas, 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 2014A Bonds from the District, at a purchase price of \$28,926,472.60 (representing the par amount of the 2014A Bonds, plus an aggregate original issue reoffering premium of \$381,172.60 on the 2014A Bonds, less an underwriter's discount of \$434,700.00). The Underwriter will be obligated to purchase all of the 2014A Bonds if any 2014A Bonds are purchased. The 2014A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing 2014A Bonds into investment trusts) at prices lower than the public offering prices of such 2014A Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has agreed, subject to certain conditions, to purchase the 2014B Bonds from the District, at a purchase price of \$3,171,700.00 (representing the par amount of the 2014B Bonds, less an underwriter's discount of \$48,300.00). The Underwriter will be obligated to purchase all of the 2014B Bonds if any 2014B Bonds are purchased. The 2014B Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing 2014B Bonds into investment trusts) at prices lower than the public offering prices of such 2014B 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.

[Remainder of page intentionally left blank].

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 Orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Orders. 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 Orders authorizing the issuance of the Bonds approve the form and content of this Official Statement and any addenda, supplement or amendment hereto and authorize its further use in the re-offering of the Bonds by the Underwriter.

/s/ Linda Rees

President, Board of Directors

Reagan Hospital District of Reagan County, Texas

ATTEST:

/s/ Robin Russell

Secretary, Board of Directors

Reagan Hospital District of Reagan County, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The Reagan Hospital District of Reagan County, Texas (the “District”) is a political subdivision of the State of Texas located in Reagan County, Texas. The District currently operates the Reagan Memorial Hospital in Big Lake, Texas (the “Hospital”), along with other health and wellness facilities/services. The Hospital is a public acute care hospital and provides inpatient, outpatient and emergency care services for residents of the District including long term and short term resident care, emergency care, trauma, acute medical, swingbed, outpatient care, physical therapy, rehabilitation, laboratory, pathology, X-Ray, CT, EKG, telemetry, and wellness center. Admitting physicians are primarily practitioners in the local area. The City of Big Lake is approximately 75 miles south of the Odessa/Midland metropolitan statistical area and approximately 70 miles west of the San Angelo metropolitan statistical area. The 2010 census for the City of Big Lake was 2,936.

The District was created in 1977 by the Legislature of the State of Texas subject to voter approval; at an election held May 14, 1977 the voters residing in the District 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” and “THE PROJECT” in the Official Statement for more information regarding the District and its facilities.

Under Texas law, the District has the responsibility to establish a hospital or hospital system within its boundaries to provide hospital and medical care to the District's residents. The District shall provide for the establishment of a hospital system and the administration of the hospital system for hospital purposes and medical purposes. The District's hospital system may include: facilities for domiciliary care of the sick, injured, or geriatric; outpatient clinics; dispensaries; convalescent home facilities; necessary nurses; domiciliaries and training centers; blood banks; community mental health centers; research centers or laboratories; and any other facilities the board considers necessary for medical and hospital care.

The District is authorized impose a tax on all property in the District subject to District taxation. The Board of Directors may impose the tax to pay any indebtedness issued or assumed by the District; to provide for the operation and maintenance of the District and hospital system; to make improvements and additions to the hospital system; and to acquire necessary sites for those improvements and additions by purchase, lease, or condemnation. The Board of Directors may not impose a tax to pay the principal of or interest on revenue bonds issued by the District.

The District may be dissolved only on approval of a majority of the District voters voting in an election held for that purpose. The Board of Directors may, on its own volition, order an election on the question of dissolving the District but the Board of Directors is required to order an election if the Board receives a petition requesting such a dissolution election that is signed by at least fifteen percent of the registered voters of the District.

REAGAN COUNTY

Reagan County has an economy based on petroleum and agriculture. Mineral resources include caliche and limestone. The economy is based on oil, cotton, ranching and an electric power generation and distribution. The Texas Almanac designates cotton, pecans and livestock as the local agricultural products. Reagan County had an estimated population of 3,367 in 2010. The region consists of 1,176 square miles with a population density of 2.86 residents per square mile compared to a statewide density of 95.92. This county ranked 224th in 2010 population compared to all 254 counties in Texas. Reagan County is a member of TWC's Concho Valley Local Workforce Development region. This area is a rural county. This county also ranked 44th in size by square miles when compared to all counties in Texas. The county seat is Big Lake and the county's major city is Big Lake.

GOVERNANCE

Board of Directors

The District is governed by a six member board that is elected by the voters of the District as listed on page vii herein.

Key Administrative Staff

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

Pamela Clark, Chief Executive Officer/Administrator. Joined the District on January 1, 2014. Served as a consultant to the District from September 20, 2013 through December 31, 2013.

Karla Egger, Chief Financial Officer. Joined the District on September 9, 2009.

Kyle Rockwell, Chief Operating Officer. Joined the District on January 28, 2013. Previously served as Chief Information Officer to the District.

Dayna Wade, Interim Chief Clinical Officer. Joined the District on June 20, 2011. Also serves as the Director of Nursing with the Reagan County Care Center, Long Term Care Facility.

HOSPITAL FACILITIES

The Hospital is a general medical, surgical and critical access hospital in Big Lake, Texas, with fourteen beds. These beds are licensed for both acute care and swing bed (intermediate) care. There are 2 permanent physicians and 9 registered nurses on staff. The hospital's emergency room is trauma certified.

The District provides a wide array of continuing care and outpatient services, including the following: long term and short term resident care, emergency care, trauma, acute medical, swingbed, outpatient care, physical therapy, rehabilitation, laboratory, pathology, X-Ray, CT, EKG, telemetry, and wellness center.

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include Medicare and Medicaid. The District is certified as a Critical Access Hospital (CAH) for Medicare reimbursement purposes. As a CAH, inpatient acute care services and substantially all outpatient services provided to Medicare beneficiaries are paid on a cost reimbursement methodology. CAH certification imposes limitations on the District, including an average annual length of stay limitation of 96 hours and a limitation of 25 general acute care beds and 10 psychiatric care beds. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

The Hospital was erected in 1949. The closest tertiary facilities are approximately 70 miles away in San Angelo.

THE PROJECT

PROJECT DESCRIPTION

The Project includes replacement of the District's Acute Care and Long Term Care facility and Wellness Center. Additionally, a Rural Health Clinic and Retail Pharmacy will be constructed to provide increased medical and pharmaceutical services to the area. Commencement of the Project is scheduled for May 2014 and completion is currently scheduled for November 2015. The project will be built on an approximately fifteen acres in Pembroke Ranch Addition Section Two, north of East 12th Street between Doris Way and Plaza Avenue in Big Lake. The building includes the following areas: seven bed critical access hospital, rural health clinic, wellness center/physical therapy, 42 bed long-term care center and associated support areas.

OPERATIONS AND UTILIZATION OF THE HOSPITAL

HOSPITAL SERVICES

The District 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:

<u>Inpatient Services</u>	<u>Outpatient/Ancillary Services</u>
Pharmacy & IV Therapy	Laboratory Services
Physical Therapy	Imaging – X-ray and CT
Swing Bed Program	Pharmacy & IV Therapy
Laboratory Services	Physical Therapy
Imaging – X-ray and CT	Wound Care
Social Services	

ACCREDITATION AND LICENSING

The Hospital is licensed by the State of Texas and received accreditation from the Texas Department of Health in 1960.

CURRENT BED CATEGORIES

The Hospital has 14 total licensed beds and 7 beds currently in service. The beds can be utilized for both medical/surgical and pediatric.

<u>Bed Category</u>	<u>Licensed Beds</u>	<u>Beds in Service</u>
Medical / Surgical	14	7
Critical Care	0	0
Pediatric	14	7
Obstetric	0	0
NICU	0	0
PICU	0	0
Total	14	7

HISTORICAL UTILIZATION DATA

	YTD 2014*	FYE 2013	FYE 2012	FYE 2011
Average Acute Care Beds in Service	7	7	7	7
Total Patient Admissions	12	24	21	38
Patient Days	98	256	108	121
Average Length of Stay	8.17	10.67	5.14	3.18
Percent Occupancy	9%	10%	4%	5%
Emergency Room Visits	672	1584	1468	1047

* as of February 28, 2014.

SOURCE OF GROSS PATIENT REVENUES

	YTD 2014*	FYE 2013	FYE 2012	FYE 2011
Medicare	\$293,245.28	\$741,910.18	\$598,960.48	\$453,485.11
Medicaid	\$15,265.72	\$26,479.27	\$81,823.08	\$93,510.46
Commercial Insurance	\$581,885.79	\$1,248,482.75	\$1,007,457.52	\$875,103.39
Private Pay	\$339,068.77	\$744,573.88	\$621,124.06	\$963,224.64

* as of February 28, 2014.

COMPETITOR HOSPITALS

San Angelo Community Medical Center, San Angelo, Texas. 70 miles from Big Lake, Texas. This is an acute care hospital that provides services including the following: Cancer Care, Cardiac Care, Diabetic Education, Diagnostic Imaging, Emergency Department, Heartburn Clinic, Hospitalist, Laboratory Services, Orthopedic Services, Rehabilitation Services, Robotic Surgery, Sleep Disorder Center, Sports Medicine, Wellness Center, Women's Health, and Wound Care.

Shannon Medical Center, San Angelo, Texas. 70 miles from Big Lake, Texas. This facility is licensed for 400 beds and provides a variety of clinical services and is the designated lead level 3 trauma center for the region. Services provided including the following: AirMed1, Behavioral Health, Birth Center, Brain & Spine Institute, Cancer Care, Cardiology, Dermatology, Diabetes Education, Dialysis, Fitness Center, Gastroenterology, Health and Wellness, Home Health, Imaging, Infusion Clinic, Laser Eye Center, Occupational Medicine, Orthopedic Services, Otolaryngology (ENT), Pediatrics, Pharmacy, Pharmaceutical Assistance Program, Pulmonary Rehabilitation, Rehabilitation, Rheumatology, Senior Health Center, Skilled Nursing, Sleep Center, Sports Medicine, Thoracic and Cardiovascular Surgery, Trauma Services, Urgent Care, Women's Health and Wound Care.

Midland Memorial Hospital, Midland, Texas. 80 miles from Big Lake, Texas. Services include: Cancer Care, Cardiopulmonary, Critical Care, Diabetes, Heart & Lung Care, Neurology, Neurosurgery & Orthopedics, Outpatient Treatment Center, Pediatrics & Women's Services, Radiology, Rehabilitation Services, Stroke Care, Surgical Services, Testing Center, Joint Center, Bariatric Program, West Texas Therapy, and Wound Care.

Health Facilities - The number of acute and psychiatric care hospitals in Reagan County as of October 2007 was 1, with an average total beds capacity of approximately 14.0 compared to a statewide ratio of 123.1 beds per hospital according to statistical reports from the Texas Department of State Health Services. The Texas State Board of Pharmacy data for October 2007 shows there are 2 licensed pharmacies in the study area. The total number of licensed pharmacies statewide is 5,919.

Health Practitioners - According to the Texas Department of State Health Services October 2007 report, there were 4 direct patient care and primary care physicians who practiced in the region. The ratio of total persons to each physician in the area was 909.0 residents per each physician. This compares to a statewide ratio of 460.5 persons for each physician in Texas. Another way of reporting these figures is by showing the number of physicians as a ratio per 100,000 residents. In this study area, the ratio in direct patient care was 3,636.0 as compared to the statewide ratio of 638.3 in direct patient care physicians per 100,000 population as of 2007. The ratio of physicians in primary care was 3,636.0 compared to a statewide ratio of 1,472.0 physicians in primary care per 100,000 persons in the population statewide.

The study area had a total of 6 registered nurses (RN) working in the study area, representing a ratio of 606.0 persons for each RN in the area. The statewide ratio was 152.2 persons for each RN in the state. For the same time period, the ratio of RNs per 100,000 population was 165.0 compared to 657.0 per 100,000 statewide. The number of licensed vocational nurses (LVN) who practiced in the area was 9 representing a ratio of 404.0 persons per each LVN in the area. This compared to 363.8 persons per each LVN statewide. The ratio of LVNs per 100,000 population was 247.5 compared to 274.9 per 100,000 population statewide.

The Texas Department of State Health Services information for October 2007 also reports that there were 0 dentists in the study. According to data from the Texas Department of State Health Services for October 2007, there were 15 licensed Emergency Medical Technicians, or EMTs, for the study area; a ratio of 412.5 licensed EMTs per 100,000 residents. The statewide ratio was 218.0 EMTs per 100,000 residents, with a total of 51,718 EMTs statewide.

Also, according to the October 2007 report from the Texas Department of State Health Services, there were 1 pharmacists in this area, which is a ratio of 3,636.0 persons for each pharmacist. Texas has 18,138 pharmacists statewide, or a ratio of 1,308.2 persons for each pharmacist in the area. The ratio of pharmacists per 100,000 residents was 27.5 compared to 76.4 per 100,000 residents statewide.

EMPLOYMENT IN REAGAN COUNTY

Historical Unemployment Rates

According to Texas Workforce Commission unemployment figures for December 2013 Reagan County had an unemployment estimate of 69 persons which represents a rate of 2.6% compared to a Texas statewide unemployment rate of 5.6% for the same month.

		<u>December 2013</u>	<u>December 2012</u>	<u>December 2011</u>	<u>December 2010</u>	<u>December 2009</u>
Regan County	Labor Force	2,699	3,065	2,812	2,848	2,357
	Unemployment	69	69	71	100	125
	Unemployment Rate	2.6%	2.3%	2.5%	3.5%	5.3%
State of Texas	Labor Force	12,864,384	12,634,533	12,529,301	12,362,929	12,044,526
	Unemployment	722,680	764,189	887,378	984,306	948,012
	Unemployment Rate	5.6%	6.0%	7.1%	8.0%	7.9%

Source: Texas Workforce Commission

APPENDIX B

**REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
SEPTEMBER 30, 2013**

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Reagan Hospital District

Auditors' Report and Financial Statements

September 30, 2013 and 2012



Reagan Hospital District

September 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Reagan Hospital District
Big Lake, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Reagan Hospital District (the District), which comprise the balance sheets as of September 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2013 and 2012, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

BKD, LLP

Waco, Texas
March 21, 2014

Reagan Hospital District

Management's Discussion and Analysis

Years Ended September 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Reagan Hospital District (the District) provides an overview of the District's financial activities for the years ended September 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- The District's cash and cash equivalents increased by \$51,584, or 8%, in 2013, compared to 2012, and decreased by \$1,261,453, or 66%, in 2012 compared to 2011.
- The District's estimated amounts due to and from third-party payers decreased by \$916,710, or 73%, in 2013, compared to 2012, and estimated amounts due to third-party payers increased by \$1,254,357, or 100%, in 2012, compared to 2011.
- The District's net position increased in 2013 by \$535,803, or 13%, and decreased in 2012 by \$448,053, or 10%.
- The District reported operating losses in both 2013 and 2012, in the amounts of \$3,126,160 and \$2,943,181, respectively. The operating loss in 2013 increased by \$182,979, or 6%, over the operating loss reported in 2012. The operating loss in 2012 increased by \$337,559, or 13%, over the operating loss reported in 2011.
- Net nonoperating revenues increased by \$1,266,835, or 53%, in 2013, compared to 2012, and decreased by \$302,591, or 11%, in 2012 compared to 2011.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheet 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. Using the accrual basis of accounting means that 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 them. The District's total net position—the difference between assets and liabilities—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of

whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The District's Net Position

The District's net position are the difference between its assets and liabilities reported in the balance sheets. The District's net position increased by \$535,803, or 13%, in 2013 over 2012, and decreased by \$448,053, or 10%, in 2012 over 2011, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 667,549	\$ 660,465	\$ 1,123,974
Other current assets	1,398,627	2,096,583	2,291,297
Capital assets, net	4,192,608	2,617,654	1,925,406
Total assets	<u>\$ 6,258,784</u>	<u>\$ 5,374,702</u>	<u>\$ 5,340,677</u>
Liabilities			
Current and noncurrent liabilities	<u>\$ 1,734,092</u>	<u>\$ 1,385,813</u>	<u>\$ 903,735</u>
Total liabilities	<u>1,734,092</u>	<u>1,385,813</u>	<u>903,735</u>
Net Position			
Net investment in capital assets	3,751,258	2,014,142	1,859,910
Restricted expendable	-	-	560
Unrestricted	773,434	1,974,747	2,576,472
Total net position	<u>4,524,692</u>	<u>3,988,889</u>	<u>4,436,942</u>
Total liabilities and net position	<u>\$ 6,258,784</u>	<u>\$ 5,374,702</u>	<u>\$ 5,340,677</u>

Significant changes in the District's balance sheets include:

- An increase in capital assets of \$1,574,954, or 60%, in 2013 due to planning phases of replacement facility and ongoing upgrade of EHR system.
- A change in the estimated amounts due to and from third-party payers from 2012 to 2013 of \$916,710, or 73%.

Operating Results and Changes in the District's Net Position

In 2013, the District's net position increased by \$535,803 as shown in Table 2. This increase is made up of several different components and represents an increase of \$983,856 compared with the decrease in net position for 2012 of \$448,053. The District's change in net position decreased from an increase of \$133,703 in 2011 to a decrease of \$448,053 in 2012, a decline of \$581,756.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 4,289,620	\$ 3,537,489	\$ 3,605,787
Other	992,388	740,158	189,793
Total operating revenues	5,282,008	4,277,647	3,795,580
Operating Expenses			
Salaries and wages and employee benefits	3,791,398	3,425,571	3,272,473
Purchased services and professional fees	2,126,065	1,777,444	1,657,789
Depreciation	485,225	524,103	213,028
Supplies and other	2,005,480	1,493,710	1,257,912
Total operating expenses	8,408,168	7,220,828	6,401,202
Operating Loss	(3,126,160)	(2,943,181)	(2,605,622)
Nonoperating Revenues			
Property taxes	3,621,058	2,544,951	2,253,012
Investment income	2,182	2,162	3,585
Noncapital grants and gifts	3,651	59,987	9,575
Interest expense	(9,368)	(11,972)	(17,449)
Other nonoperating revenue	44,440	(200,000)	448,996
Total nonoperating revenues	3,661,963	2,395,128	2,697,719
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	535,803	(548,053)	92,097
Capital Grants and Gifts	-	100,000	41,606
Increase (Decrease) in Net Position	\$ 535,803	\$ (448,053)	\$ 133,703

Operating Losses

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 revenue and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Reagan County and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2013 increased by \$182,979, or 6%, as compared to 2012. The primary component of the increased operating loss is:

- An increase in net patient service revenue of \$752,131, or 21% due to increased supplemental funding and increased utilization.
- An increase in purchased services and professional fees of \$348,621, or 20%, due to contracting of administrator and financial advisor as well as significant professional services to prepare for the facility replacement.
- An increase in salaries, wages, and employee benefits for the District's employees of \$365,827, or 11%, due to market wage pressure.

The operating loss for 2012 increased by \$337,559, or 13%, as compared to 2011. The primary components of the increased operating loss are:

- An increase in salaries, wages, and employee benefits for the District's employees of \$153,098, or 5%, due to the hiring of upper management.
- Total operating expenses increased \$509,699, or 8%, primarily as a result of increased depreciation expense of \$366,560 in connection with the purchase of a new EMR system.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, intergovernmental transfers related to the UPL program and investment income, the total of which remained relatively constant in 2013 as compared to 2012. The District recognized an increase in property taxes of \$1,076,107, or 42%. The District recognized a decrease in its noncapital grants and gifts in 2013 compared to 2012.

Capital Grants and Gifts

The District receives both capital and operating grants from various state and federal agencies for specific programs. Additionally, the District requests funds for special capital projects from various local entities. The amount of these requests from 2010 through 2012 has varied based on the District's needs. There were no capital grants and gifts in 2013.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2013, 2012 and 2011, discussed earlier. Cash used by operating activities increased slightly more than the operating loss in 2013 due to the increase in the District's patient accounts receivable and the change in estimated cost report settlements.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013 and 2012, the District had \$4,192,608 and \$2,617,654, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements.

Debt Administration

At September 30, 2013 and 2012, the District had \$441,350 and \$603,512, respectively, in long-term debt outstanding. As discussed in *Note 6*, the District issued a new note payable in 2013 and a note payable for \$700,000 in 2012.

Subsequent Events

Subsequent to year end, the District obtained revenue bonds for the construction of a new facility as discussed in *Note 11*.

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. Questions about this report and requests for additional financial information should be directed to the District's Administrator at 805 North Main Avenue, Big Lake, Texas 76932.

Reagan Hospital District

Balance Sheets

September 30, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 715,009	\$ 663,425
Patient accounts receivable, net of allowance; 2013 - \$950,000; 2012 - \$840,000	667,549	660,465
Property taxes receivable, net of allowance	55,150	53,821
Estimated amounts due from third-party payers	138,098	1,253,480
Supplies	63,184	92,798
Prepaid expenses and other	427,186	33,059
	<hr/>	<hr/>
Total current assets	2,066,176	2,757,048
	<hr/>	<hr/>
Capital Assets, Net	4,192,608	2,617,654
	<hr/>	<hr/>
Total assets	<u>\$ 6,258,784</u>	<u>\$ 5,374,702</u>

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 439,778	\$ 580,423
Accounts payable	787,641	396,908
Accrued expenses	306,429	385,393
Estimated amounts due to third-party payers	198,672	-
	<hr/>	<hr/>
Total current liabilities	1,732,520	1,362,724
	<hr/>	<hr/>
Long-term Debt	1,572	23,089
	<hr/>	<hr/>
Total liabilities	1,734,092	1,385,813
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	3,751,258	2,014,142
Unrestricted	773,434	1,974,747
	<hr/>	<hr/>
Total net position	4,524,692	3,988,889
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 6,258,784</u>	<u>\$ 5,374,702</u>

Reagan Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 - \$371,755, 2012 - \$1,381,834	\$ 4,289,620	\$ 3,537,489
Other	992,388	740,158
Total operating revenues	5,282,008	4,277,647
Operating Expenses		
Salaries and wages	3,007,835	2,698,655
Employee benefits	783,563	726,916
Purchased services and professional fees	2,126,065	1,777,444
Supplies and other	2,005,480	1,493,710
Depreciation	485,225	524,103
Total operating expenses	8,408,168	7,220,828
Operating Loss	(3,126,160)	(2,943,181)
Nonoperating Revenues (Expenses)		
Property taxes	3,621,058	2,544,951
Interest income	2,182	2,162
Interest expense	(9,368)	(11,972)
Noncapital grants and gifts	3,651	59,987
Indigent care affiliation funding	-	(200,000)
Other nonoperating revenue	44,440	-
Total nonoperating revenues	3,661,963	2,395,128
Excess (Deficiency) of Revenues Over Expenses	535,803	(548,053)
Capital Grants and Gifts	-	100,000
Increase (Decrease) in Net Position	535,803	(448,053)
Net Position, Beginning of Year	3,988,889	4,436,942
Net Position, End of Year	\$ 4,524,692	\$ 3,988,889

Reagan Hospital District
Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 5,596,590	\$ 2,462,140
Payments to suppliers and contractors	(4,528,254)	(2,879,550)
Payments to employees	(3,870,362)	(3,338,589)
Other receipts, net	992,388	735,608
Net cash used in operating activities	<u>(1,809,638)</u>	<u>(3,020,391)</u>
Noncapital Financing Activities		
Property taxes supporting operations	3,619,729	2,512,525
Noncapital grants and gifts	3,651	59,987
Other noncapital financing receipts	44,440	(200,000)
Net cash provided by noncapital financing activities	<u>3,667,820</u>	<u>2,372,512</u>
Capital and Related Financing Activities		
Capital grants and gifts	-	100,000
Proceeds from issuance of long-term debt	417,441	700,000
Principal paid on long-term debt	(579,603)	(191,964)
Interest paid on notes payable to banks and long-term debt	(9,368)	(11,972)
Proceeds from sale of capital assets	-	4,552
Purchase of capital assets	(1,637,250)	(1,216,351)
Net cash used in capital and related financing activities	<u>(1,808,780)</u>	<u>(615,735)</u>
Investing Activities		
Interest on investments	2,182	2,162
Net cash provided by investing activities	<u>2,182</u>	<u>2,162</u>
Increase (Decrease) in Cash and Cash Equivalents	51,584	(1,261,452)
Cash and Cash Equivalents, Beginning of Year	<u>663,425</u>	<u>1,924,877</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 715,009</u></u>	<u><u>\$ 663,425</u></u>

Reagan Hospital District
Statements of Cash Flows (Continued)
Years Ended September 30, 2013 and 2012

Reconciliation of Net Operating Revenues (Expenses) to Net Cash

Used in Operating Activities

Operating loss	\$ (3,126,160)	\$ (2,943,181)
Depreciation	485,225	524,103
Provision for uncollectible accounts	371,755	1,381,834
Changes in operating assets and liabilities:		
Patient accounts receivable	(378,839)	(918,325)
Estimated amounts due from and to third-party payers	1,115,382	(1,538,858)
Accounts payable and accrued expenses	87,512	258,542
Other assets and liabilities	(364,513)	215,494
	<u>\$ (1,809,638)</u>	<u>\$ (3,020,391)</u>
Net cash used in operating activities	<u>\$ (1,809,638)</u>	<u>\$ (3,020,391)</u>

Supplemental Cash Flows Information

Capital assets acquisitions included in accounts payable	\$ 422,929	\$ -
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Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Reagan Hospital District (the District) operates a critical access hospital located in Big Lake, Texas. The District is a political subdivision of the state of Texas and the District is governed by a board of directors, elected by citizens of the District. As dictated by state law creating the Reagan Memorial Hospital (the Hospital), the Hospital is responsible for health care of indigent residents of the District and is funded, in part, by ad valorem taxes on real and personal property within the District.

The District provides inpatient, outpatient, emergency care, and elderly nursing care services for residents of the District, through its operations of the Hospital and Reagan County Care Center (the Care Center). For financial reporting purposes, the District includes all operations controlled by the board.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

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

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2013 and 2012, cash equivalents consisted primarily of certificates of deposits and investments in public fund investment pools.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Property Taxes

The District received approximately 41% in 2013 and 36% in 2012 of its financial support from property taxes to support operations. Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year.

The District's property tax rate was \$0.1456 and \$0.1251 per \$100 valuation and property tax revenue totaled \$3,621,058 and \$2,544,951 for 2013 and 2012, respectively.

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 disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	5 – 20 years
Buildings and improvements	5 – 40 years
Equipment	3 – 10 years

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

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 vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the District is classified in three components. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The District provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Income Taxes

The District is a political subdivision under the laws of the state of Texas, and therefore, it is exempt from federal and state income tax pursuant to Section 115 of the Internal Revenue Code. However, the District is subject to federal income tax on any unrelated business taxable income.

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 one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the District's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the District is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The District has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. The District recorded revenue of approximately \$28,000 and \$36,000 under the Medicaid incentive program which is included in other operating income for the years ended September 30, 2013 and 2012, respectively, and approximately \$700,000 under the Medicare incentive program which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the year ended September 30, 2012.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. The reclassifications had no effect on the changes in financial position.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Note 2: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

- **Medicare** - The District is certified as a Critical Access Hospital (CAH) for Medicare reimbursement purposes. As a CAH, inpatient acute care services and substantially all outpatient services provided to Medicare beneficiaries are paid on a cost reimbursement methodology. CAH certification imposes limitations on the District, including an average annual length of stay limitation of 96 hours and a limitation of 25 general acute care beds and 10 psychiatric care beds. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.
- **Medicaid** - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately \$1,348,000 and \$1,152,000 of revenue from the District's nursing home facility is included in income from operations in 2013 and 2012, respectively. Medicare reimburses covered skilled nursing admissions on a prospective per day basis based on level of care. Medicaid also reimburses covered skilled nursing admissions on a per day basis.

On December 12, 2011, the United States Department of Health and Human Services approved a new Medicaid section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program." This demonstration expanded existing Medicaid managed care programs and established two funding pools that are meant to assist providers with uncompensated care costs and promote health system transformation. The demonstration is effective from December 12, 2011 to September 30, 2016. The funding received through this demonstration largely replaced the funding the District historically received under the Texas Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) programs, which were designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. Total funding received through the Texas Medicaid supplemental funding programs was approximately \$518,000 and \$490,000, net of intergovernmental funding of approximately \$367,000 and \$203,000, in other nonoperating revenue for the years ended September 30, 2012 and 2011, respectively.

Approximately 42% and 53% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

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

Note 3: Deposits and Investments

Deposits

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.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2013 and 2012, respectively, none of the District's bank balances of \$1,455,277 and \$196,277, respectively, were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. The District has funds of \$102,489 and \$592,333 invested in TexPool, as of September 30, 2013 and 2012, respectively, which do not require security, as shown below. These funds are immediately redeemable by the District.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons which do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Weekly portfolio information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review.

TexPool represents that they operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

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. TexPool is presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to limit its investments to certificates of deposit, indexed money market accounts which are FDIC insured or secured by obligations of a federal agency, treasury securities, or local government investment pools. TexPool is rated AAAm by Standard and Poor's.

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.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. The only investments held by the District at September 30, 2013 and 2012 was the investment in TexPool.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2013	2012
Carrying value:		
Deposits	\$ 612,520	\$ 71,092
Investments	<u>102,489</u>	<u>592,333</u>
	<u><u>\$ 715,009</u></u>	<u><u>\$ 663,425</u></u>

The deposits and investments noted above are included in cash and cash equivalents on the accompanying balance sheets.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Note 4: Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

	2013	2012
Medicare	\$ 133,082	\$ 121,242
Medicaid	592,304	490,496
Other third-party payers	149,704	220,503
Patients	742,459	668,224
	<u>1,617,549</u>	<u>1,500,465</u>
Less allowance for uncollectible accounts	<u>950,000</u>	<u>840,000</u>
	<u><u>\$ 667,549</u></u>	<u><u>\$ 660,465</u></u>

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ -	\$ 272,181	\$ -	\$ -	\$ 272,181
Buildings and leasehold improvements	3,772,255	-	-	-	3,772,255
Equipment	2,771,143	88,987	(5,899)	-	2,854,231
Capital leases	173,867	-	-	-	173,867
Construction in progress	296,078	1,699,011	-	-	1,995,089
	<u>7,013,343</u>	<u>2,060,179</u>	<u>(5,899)</u>	<u>-</u>	<u>9,067,623</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	2,396,579	75,893	(5,899)	-	2,466,573
Equipment	1,933,744	384,494	-	-	2,318,238
Capital leases	65,366	24,838	-	-	90,204
	<u>4,395,689</u>	<u>485,225</u>	<u>(5,899)</u>	<u>-</u>	<u>4,875,015</u>
Capital assets, net	<u><u>\$ 2,617,654</u></u>	<u><u>\$ 1,574,954</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4,192,608</u></u>

Reagan Hospital District
Notes to Financial Statements
September 30, 2013 and 2012

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Buildings and leasehold improvements	\$ 3,738,326	\$ 55,107	\$ (21,178)	\$ -	\$ 3,772,255
Equipment	1,905,977	865,166		-	2,771,143
Capital leases	173,867	-	-	-	173,867
Construction in progress	-	296,078	-	-	296,078
	<u>5,818,170</u>	<u>1,216,351</u>	<u>(21,178)</u>	<u>-</u>	<u>7,013,343</u>
Less accumulated depreciation:					
Buildings and leasehold improvements	2,339,539	78,218	(21,178)	-	2,396,579
Equipment	1,512,697	421,047		-	1,933,744
Capital leases	40,528	24,838	-	-	65,366
	<u>3,892,764</u>	<u>524,103</u>	<u>(21,178)</u>	<u>-</u>	<u>4,395,689</u>
Capital assets, net	<u>\$ 1,925,406</u>	<u>\$ 692,248</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,617,654</u>

Note 6: Long-term Debt

A summary of long-term debt transactions for the year ended September 30 follows:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Note payable to bank	\$ 558,117	\$ 417,441	\$ (558,117)	\$ 417,441	\$ 417,441
Capital lease obligations	45,395	-	(21,486)	23,909	22,337
Total long-term obligations	<u>\$ 603,512</u>	<u>\$ 417,441</u>	<u>\$ (579,603)</u>	<u>\$ 441,350</u>	<u>\$ 439,778</u>

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Note payable to bank	\$ 29,979	\$ 700,000	\$ (171,862)	\$ 558,117	\$ 558,117
Capital lease obligations	65,497	-	(20,102)	45,395	22,306
Total long-term obligations	<u>\$ 95,476</u>	<u>\$ 700,000</u>	<u>\$ (191,964)</u>	<u>\$ 603,512</u>	<u>\$ 580,423</u>

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

The District obtained a note payable in the amount of \$700,000 on March 30, 2012 with an interest rate of 2.93% for the purpose of purchasing new equipment for the hospital. On September 20, 2013, the District paid off the prior note and obtained a new note payable with available principal of up to \$1,504,000. The note is payable on demand, but if no demand is made then in monthly installments of \$27,567 for principal and interest at a rate of prime plus 0.5%, 3.75% as of September 30, 2013. The loan was obtained for purchase of new equipment.

If no demand is made, debt service requirements at September 30, 2013 are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2014	\$ 330,809	\$ 313,682	\$ 17,127
2015	104,508	103,759	749
	<u>\$ 435,317</u>	<u>\$ 417,441</u>	<u>\$ 17,876</u>

Capital Lease Obligations

The District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2013 and 2012, totaled \$83,663 and \$108,501 net of accumulated depreciation of \$90,204 and \$65,366, respectively. Each lease has a term of 60 months. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 8.98% to 16.30% together with the present value of the future minimum lease payments as of September 30, 2013:

Year Ending September 30,	
2014	\$ 23,667
2015	1,584
Total minimum lease payments	<u>25,251</u>
Less amount representing interest	<u>1,342</u>
Present value of future minimum lease payments	<u>\$ 23,909</u>

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Note 7: Pension Plan

Plan Description

The District sponsors a defined benefit pension plan for eligible employees within a multiemployer retirement program sponsored by the Texas County and District Retirement System (TCDRS). The plan's assets are invested as a portion of the TCDRS's master pension trust fund. The plan provides retirement, death and disability benefits. Amendments to the plan are made only with the authority of the District's Board.

The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing TCDRS at P.O. Box 2034, Austin, Texas 78768-2034.

Participants can retire at age 60 and above with ten or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equal 75 or more. Participants are vested after 10 years of service, but must leave their accumulated deposits in the plan to receive any District-financed benefit. Participants who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by the District.

Benefit amounts are determined by the sum of the participant's deposits to the plan, with interest, and District financed monetary credits. The level of these monetary credits is adopted by the Board so that the resulting benefits can be expected to be adequately financed by the District's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the participant's accumulated deposits and the District-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The District has elected the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. Plan members are required to contribute 7% of their annual covered salary. The District is required to contribute at an actuarially determined rate; the rate was 8.57% of annual covered payroll for both 2013 and 2012, respectively.

Annual Pension Cost

For the District's fiscal year ended September 30, 2013 and 2012, the annual pension cost and the actual contributions for the TCDRS plan for its employees was \$233,439 and \$180,090, respectively. The required contributions for 2013 and 2012 were determined based on the results of actuarial valuations as of December 31, 2012 and 2011, using the entry age actuarial cost method. The actuarial assumptions included (a) an 8.0% investment rate of return (net of administrative expenses) per year and (b) projected salary increase of 5.4% per year. Both (a) and (b) included an inflation component of 3.5%. The actuarial valuation of plan assets was determined using Subdivision

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Accumulation Fund: Ten-year smoothed value and Employees Saving Fund: fund value. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization periods for the contributions based on the two valuations that determined the annual pension cost (APC) for the District's fiscal year ended September 30, 2013 and 2012, were a 6.2-year and 5.7-year closed period amortization period for 2013 and 2012, respectively, for the December 31, 2012 and 2011, actuarial valuations, respectively.

Three-year Trend Information

Fiscal Year End	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2013	\$ 233,439	100%	\$ -
September 30, 2012	\$ 180,090	100%	\$ -
September 30, 2011	\$ 201,660	100%	\$ -

Funding Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 92.1% funded. The actuarial accrued liability for benefits was \$3,773,731 and the actuarial value of assets was \$3,475,923, resulting in an underfunded actuarial accrued liability (UAAL) of \$297,808. The covered payroll (annual payroll of active employees covered by the plan) was \$2,188,082 and the ratio of the OAAL to the covered payroll was 13.6%.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 8: Risks and Uncertainties

Physicians

The District is dependent on local physicians practicing in its service area to provide admissions and utilize Hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

Reagan Hospital District

Notes to Financial Statements

September 30, 2013 and 2012

Health Care Reform

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the District's net patient service revenue. Additionally, it is possible the District will experience payment delays and other operational challenges during PPACA's implementation.

Note 9: Future Change in Accounting Principle

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record a liability in their financial statements that is equal to the unfunded pension obligation. Historically, governmental entities have only been required to record a liability for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. This standard is effective for the District's fiscal year ending September 30, 2015. The impact of applying the statement has not been determined.

Reagan Hospital District
Notes to Financial Statements
September 30, 2013 and 2012

Note 10: 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. In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 11: Subsequent Event

In 2013, the District's board of directors received authorization to issue bonds in one or more series, in an aggregate maximum principal amount of \$32.2 million with a maturity not to exceed 40 years and an interest rate not to exceed the maximum rate allowed by law. The bond issuance constitutes a direct obligation of the District, payable from and secured by the levy and collection of an ad valorem tax levied for the benefit of the District, within the limits prescribed by law, on all taxable property located within the District and any revenues or funds available to the District for its public purpose. The bonds will be used to construct and equip a new facility.

Required Supplementary Information

Reagan Hospital District
Schedule of Funding Progress
September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll (b-a/c)
December 31, 2012	\$ 3,475,923	\$ 3,773,731	\$ 297,808	92.11%	\$ 2,188,082	13.61%
December 31, 2011	\$ 3,064,570	\$ 3,382,716	\$ 318,146	90.59%	\$ 2,264,775	14.05%
December 31, 2010	\$ 2,883,886	\$ 3,255,751	\$ 371,865	88.58%	\$ 2,335,955	15.92%

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APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
LIMITED TAX AND REVENUE BONDS, SERIES 2014A (THE
"SERIES 2014A BONDS")

AND

REAGAN HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS
LIMITED TAX AND REVENUE BONDS, TAXABLE SERIES 2014B
(THE "SERIES 2014B BONDS")

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$32,200,000

AS BOND COUNSEL FOR THE REAGAN COUNTY HOSPITAL DISTRICT OF REAGAN COUNTY, TEXAS (the "District") with regard to the issuance of both series of Bonds described above (both such series together being the "Bonds"), we have examined the legality and validity of the Bonds, which bear interest from their date of delivery, at the rates and payable on the dates as stated in the text of the Bonds, maturing subject to mandatory sinking fund redemption, and being further subject to optional redemption prior to their scheduled maturities, all in accordance with the terms and conditions stated in the text of the Bonds and in the Order authorizing their issuance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the District, and other pertinent documents and instruments authorizing and relating to the issuance of the Bonds, including the executed Bond Number T-1 of each of the Series 2014A Bonds and Series 2014B Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued by the District, that 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 District relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, constitute valid and legally binding obligations of the District.

Ad valorem taxes to provide for the payment of the interest on and principal of the Bonds have been levied and pledged by the District for such purpose, subject to the limitations imposed by Chapter 1088 of the *Texas Special District Local Laws Code*, and Article IX Section 9, of the Texas Constitution (which impose a maximum limit on ad valorem taxes levied by the District for all purposes of 75 cents on each \$100 valuation of all taxable property in the District). Payment of the Bonds is further secured by a pledge of the Net Revenues of the District's hospital system.

IT IS OUR FURTHER OPINION THAT:

- (1) Interest on the Series 2014B Bonds is includable in gross income for purposes of federal income taxation.
- (2) Interest on the Series 2014A Bonds is excludable from gross income for federal income tax purposes under existing law, including the provisions of the Internal Revenue Code of 1986, as amended (the "Code");
- (3) The Series 2014A Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Series 2014A Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Series 2014A Bonds may be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT, or REMIC) for purposes of computing its alternative minimum tax; and
- (4) The Series 2014A Bonds are not bank qualified tax exempt obligations under Section 265(b) of the Code.

In providing such opinions, we have relied on representations of the District and the Underwriter with respect to matters solely within the knowledge of the District and the Underwriter, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order authorizing issuance of the Bonds (the "Order") and a related tax certificate of the District pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Series 2014A Bonds for federal income tax purposes. We have further relied on the certification of the Underwriter regarding the mathematical accuracy of certain computations related to the Series 2014A Bonds. If such representations or certifications are determined to be inaccurate or incomplete or the District fails to comply with the foregoing provisions of the Order and the tax certificate, interest on the Series 2014A Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs. Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of the Bonds.

Owners of the Series 2014A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. Interest on the Series 2014A Bonds is includable in a corporation's "adjusted current earnings" and to that extent could subject a corporation to alternative minimum tax consequences. In addition, certain foreign corporations doing business in the U.S. may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series 2014A Bonds).

Our opinions are based on existing law as of the date hereof, 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 hereafter come to our attention or to reflect any changes in any law that may hereafter 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 as to whether or not the Service will commence an audit of the Series 2014A Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted in the Order 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 Series 2014A Bonds as includable in gross income for federal income tax purposes.

WE HAVE ACTED AS BOND COUNSEL, for the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Series 2014A Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data or other material relating to the financial condition or capabilities of the District, and have not assumed any responsibility with respect thereto.

Very truly yours,

NAMAN, HOWELL, SMITH & LEE, PLLC

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