OFFICIAL STATEMENT
Dated June 4, 2014

NEW ISSUE — Book-Entry-Only

RATING:
Moody's: "A2"
(see "OTHER INFORMATION - Rating" herein)

In the opinion of Bond Counsel, assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income on individuals, or, except as described herein, on corporations. See "TAX MATTERS" herein.

$14,685,000
RANKIN COUNTY HOSPITAL DISTRICT
COMBINATION TAX AND REVENUE BONDS
SERIES 2014

Dated Date: June 1, 2014
Interest Accrues from Date of Delivery

Due: August 15, as shown on the inside front cover

PAYMENT TERMS . . . Interest on the $14,685,000 Rankin County Hospital District Combination Tax and Revenue Bonds, Series 2014 (the "Bonds") will accrue from the date on which they are delivered to the initial purchasers thereof (the "Underwriters"), will be payable on February 15 and August 15 of each year, commencing February 15, 2015, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds initially will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners of the Bonds.** Principal of and interest on the Bonds will be payable by BOKF, N.A., dba Bank of Texas, Austin, Texas, as the initial Paying Agent/Registrar for the Bonds (the "Paying Agent/Registrar"), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Article IX, Section 9 of the Texas Constitution, Chapter 182, Acts of the 60th legislature, Regular Session 1967, as amended (the "Act"), an election held in the Rankin County Hospital District (the "District") on November 5, 2013, and approved by a majority of the participating voters, and an order adopted by the Board of Directors of the District authorizing the issuance of the Bonds on behalf of the District (the "Order"). (See "THE BONDS – Authority for Issuance").

SECURITY . . . The Bonds constitute direct obligations of the District payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the District, and (ii) a pledge of the net revenues of the District, as described herein and provided in the Order. The District's combined ad valorem tax rate cannot exceed $0.75 per $100 of taxable assessed valuation. The Act does not limit the amount of the District's $0.75 per $100 of taxable assessed valuation permitted tax levy that is available for debt service, but the combined tax rate for meeting the requirements of the Bonds together with any other ad valorem tax imposed for the District may not exceed $0.75 per $100 of taxable valuation. The Bonds are not secured by a mortgage or other security interest in any real property of the District. (See "THE BONDS – Security and Source of Payment" and "THE BONDS – Tax Rate Limitation").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) the purchase, construction, acquisition, renovation and equipping of hospital improvements for providing hospital care, including without limitation a new hospital, wellness center (including a pharmacy), clinic, physician's office and maintenance building and related improvements , and (ii) paying the costs associated with the issuance of the Bonds, and (ii) paying the costs associated with the issuance of the Bonds (see "PLAN OF FINANCE" in the forepart of this Official Statement and "THE PROJECT" in Appendix A hereto).

MATURITY SCHEDULES, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS AND REDEMPTION PROVISIONS
See Schedules on Inside Front Cover

LEGALITY . . . The Bonds are offered for delivery when, as and if issued by the District and received by the Underwriters and subject to the approval of legality by the Attorney General of the State of Texas and Naman, Howell, Smith & Lee, PLLC, Waco, Texas ("Bond Counsel") (see Appendix C - "Form of Bond Counsel Opinion" hereto). Certain legal matters will be passed upon for the Underwriters by their counsel, McGuireWoods LLP, Houston, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about June 20, 2014.

RAYMOND JAMES **COASTAL SECURITIES, INC.**

$14,685,000
COMBINATION TAX AND REVENUE BONDS
SERIES 2014

Maturity (8/15)	Amount	Interest Rate	Initial Yield	CUSIP[1]	Maturity (8/15)	Amount	Interest Rate	Initial Yield	CUSIP[1]
2015	$415,000	4.000%	0.520%	753055AA0	2024	$710,000	4.000%	3.250% [2]	753055AK8
2016	520,000	4.000%	0.850%	753055AB8	2025	735,000	4.000%	3.450% [2]	753055AL6
2017	540,000	4.000%	1.220%	753055AC6	2026	765,000	4.000%	3.600% [2]	753055AM4
2018	560,000	4.000%	1.580%	753055AD4	2027	800,000	3.500%	3.750%	753055AN2
2019	585,000	4.000%	1.980%	753055AE2	2028	825,000	3.625%	3.840%	753055AP7
2020	605,000	4.000%	2.280% [2]	753055AF9	2029	855,000	3.750%	3.900%	753055AQ5
2021	630,000	4.000%	2.630% [2]	753055AG7	2030	885,000	3.875%	3.960%	753055AR3
2022	655,000	4.000%	2.900% [2]	753055AH5	2031	920,000	3.875%	4.030%	753055AS1
2023	680,000	4.000%	3.100% [2]	753055AJ1					

$3,000,000 4.250% Term Bonds due August 15, 2034, Priced to Yield 4.100%,[2] CUSIP:[1] 753055AV4

(Interest to accrue from the Date of Delivery)

OPTIONAL REDEMPTION. The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2019 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

MANDATORY REDEMPTION . . . The Bonds maturing on August 15, 2034 are subject to mandatory redemption prior to maturity on the dates and in the amounts described in this Official Statement (see "THE BONDS - Redemption Provisions - Mandatory Redemption").

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. CUSIP numbers are provided for convenience of reference only. None of the District, the Financial Advisor and the Underwriters takes any responsibility for the accuracy of such numbers.

(2) Priced to the first optional call date of August 15, 2019.

USE OF INFORMATION

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 offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the District. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have 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 Underwriters cannot and do not guarantee the accuracy or completeness of such information.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

NEITHER THE DISTRICT NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR ANY INFORMATION REGARDING DTC, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT ..... The Rankin County Hospital District (the "District") is a political subdivision of the State of Texas (the "State") located in Upton County, Texas. The boundaries of the District are coterminous with the boundaries of the Rankin Independent School District, as those boundaries existed on January 1, 1967. For more information regarding the District, see "INTRODUCTION – Description of the District" and Appendix A hereto.

THE BONDS..... The Bonds are issued as $14,685,000 Combination Tax and Revenue Bonds, Series 2014. The Bonds are issued as serial bonds maturing August 15 in the years 2015 through and including 2031 and a term bond maturing on August 15, 2034 (see "THE BONDS - Description of the Bonds"). Interest on the Bonds accrues from the date of delivery to the Underwriters, and is payable February 15, 2015 and each February 15 and August 15 thereafter until maturity or prior redemption. (see "THE BONDS - Description of the Bonds" and "THE BONDS - Optional Redemption").

AUTHORITY FOR ISSUANCE..... The Bonds are issued pursuant to the general laws of the State, including particularly Article IX, Section 9 of the Texas Constitution, Chapter 182, Acts of the 60th legislature, Regular Session 1967, as amended (the "Act"), an election held in the District on November 5, 2013, and approved by a majority of the participating voters, and an order adopted by the Board of Directors of the District authorizing the issuance of the Bonds on behalf of the District. (see "THE BONDS - Authority for Issuance").

SECURITY FOR THE BONDS ..... The Bonds constitute direct obligations of the District payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the District, and (ii) a pledge of the net revenues of the District, as described herein and provided in the Order. The District, in its sole discretion, may grant a lien on such net revenues to secure indebtedness of the District that is senior to the lien on such net revenues securing the Bonds. The District's combined ad valorem tax rate cannot exceed $0.75 per $100 of taxable assessed valuation. The Act does not limit the amount of the District's $0.75 per $100 of taxable assessed valuation permitted tax levy that is available for debt service, but the combined tax rate for meeting the requirements of the Bonds together with any other ad valorem tax imposed for the District may not exceed $0.75 per $100 of taxable valuation. The Bonds are not secured by a mortgage or other security interest in any real property of the District. (see "THE BONDS – Security and Source of Payment" and "THE BONDS – Constitutional Tax Rate Limitation").

REDEMPTION..... The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2019 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption"). Additionally, the Bonds maturing on August 15, 2034 are subject to mandatory sinking fund redemption as more particularly described herein (see "THE BONDS – Mandatory Redemption").

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

USE OF PROCEEDS ..... Proceeds from the sale of the Bonds will be used for (i) the purchase, construction, acquisition, renovation and equipping of hospital improvements for providing hospital care, including without limitation a new hospital, wellness center (including a pharmacy), clinic, physicians office and maintenance building, and other related improvements, and (ii) paying the costs associated with the issuance of the Bonds (see "PLAN OF FINANCE" in the forepart of this Official Statement and "THE PROJECT" in Appendix A hereto).

RATING ..... The Bonds have been rated "A2" by Moody's Investors Service, Inc. ("Moody's") without regard to credit enhancement (see "OTHER INFORMATION - Rating").

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

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

DELIVERY ..... When issued, anticipated on or about June 20, 2014.

SELECTED FINANCIAL INFORMATION

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	Tax Debt Per Capita
2010	1,108	$2,445,656,499	$2,207,271	$ 0	0.00%	$ 0
2011	1,113	2,580,322,525	2,318,349	0	0.00%	0
2012	1,320	3,631,062,623	2,750,805	0	0.00%	0
2013	1,413	3,423,122,916	2,422,592	0	0.00%	0
2014	1,459	3,567,660,741[4]	2,445,278	24,685,000 [3]	0.69%[3]	16,919[3]

(1) Source: Municipal Advisory Council of Texas

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

(3) Includes the Bonds and the Existing Bonds.

(4) Estimated and uncertified; provided by the Upton County Appraisal District.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

DISTRICT BOARD OF DIRECTORS

Board of Directors	Occupation	Position	Term Expires
Tracy Clanton	Maintenance Supervisor	President	11/2014
Linda Dusek	Farmer/Business Owner	Vice President	11/2017
Corey Owens	Teacher	Secretary	11/2014
Bruce Winn	Chemical Consultant	Member	11/2014
Hal Hutchens	Sheriff's Department	Member	11/2017

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service (Years)	Length in Current Position (Years)
Tommy Johnson	Chief Executive Officer	5	3
Christy Akin	Chief Financial Officer	8	6
Brandy Cruz	Chief Nursing Officer	4	2
Miriam Watson	Human Resources	2	1

CONSULTANTS AND ADVISORS

Government Capital Securities Corporation Southlake, Texas	Financial Advisor
Naman, Howell, Smith & Lee, PLLC Waco, Texas	Bond Counsel
BKD, LLP Waco, Texas	Independent Auditor

For additional information regarding the District, please contact:

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OFFICIAL STATEMENT

RELATING TO

$14,685,000
RANKIN COUNTY HOSPITAL DISTRICT
COMBINATION TAX AND REVENUE BONDS
SERIES 2014

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $14,685,000 Rankin County Hospital District Combination Tax and Revenue Bonds, Series 2014 (the "Bonds"). Except as otherwise defined herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms, respectively, in the order authorizing the issuance and sale of the Bonds (the "Order"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Rankin County Hospital District (the "District") and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's financial advisor, Government Capital Securities Corporation, Southlake, Texas (the "Financial Advisor") by electronic mail or upon payment of reasonable handling, mailing, and delivery charges.

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

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

Description of the District

The District operates a hospital system in Rankin, Texas known as Rankin County Hospital (the "Hospital") and performs an essential public service of providing hospital and medical care to the District's residents located in Upton County, Texas (the "County"). The District is a hospital district created and existing pursuant to Article IX, Section 9 of the Texas Constitution and Chapter 182, Acts of the 60th Legislature, Regular Session 1967, as amended (the "Act").

The District is a political subdivision located in the County and is governed by a five-member Board of Directors (the "Board") who serve staggered four-year terms with November elections being held biennially. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board has responsibility for the management, control of the District and its finances. The boundaries of the District are coterminous with the boundaries of the Rankin Independent School District located in the County as those boundaries existed on January 1, 1967. The District covers approximately 827.52 square miles in the County. Board members are "public officers" under the Texas Constitution and, as a body, exercise sovereign functions of government independent of control of others, and serve without pay. See Appendix A hereto. The District is not affiliated with the County, which is a separate and distinct political subdivision.

PLAN OF FINANCE

Purpose

The Bonds will finance the purchase, construction, acquisition, renovation and equipping of hospital improvements for providing hospital care, including without limitation a new hospital, wellness center (including a pharmacy), clinic and physicians office (the "Project"), and paying the costs associated with the issuance of the Bonds**.** The project includes a new one-story Critical Access Hospital with an attached two-provider clinic and retail pharmacy on a new 8-acre site. The new 33,960 square foot replacement hospital will include lab, imaging, physical therapy, pharmacy and emergency department services in addition to the 15 inpatient beds. A full dietary department and dining functions will also be provided. A 2,569 square foot clinic and 1,700 square foot retail pharmacy also will be connected to the hospital. The new 9,800 square foot wellness center will include a multi-purpose room, gym facilities, physical therapy area and a large pool and whirlpool which can be used for either therapy or recreation.

Sources and Uses of Proceeds

Sources of Funds	
Par Amount of the Bonds	$14,685,000.00
Net Reoffering Premium	362,020.80
Total Sources	**$15,047,020.80**
Uses of Funds	
Deposit to Project Fund	$14,750,000.00
Underwriters' Discount	133,909.50
Costs of Issuance[(1)]	163,111.30
Total Uses	**$15,047,020.80**

(1) Includes, among other things, counsel fees and other costs of issuing the Bonds.

THE BONDS

The Bonds are dated as of June 1, 2014, bear interest from their date of delivery, and mature on August 15, in the years and principal amounts and bear interest at per annum rates as shown on the inside front cover of this Official Statement (which interest accrues from the Date of Delivery). Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2014. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one stated maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by BOKF, N.A., dba Bank of Texas, Austin, Texas, as the initial Paying Agent/Registrar for the Bonds (the "Paying Agent/Registrar"), to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

Authority for Issuance

The Bonds are being issued pursuant to the general laws of the State of Texas (the "State"), including particularly Article IX, Section 9 of the Texas Constitution, the Act, an election held in the District on November 5, 2013, and approved by a majority of the participating voters, and the Order.

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the District (the "Ad

Valorem Levy"). 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. The Act does not limit the amount of the District's $0.75 per $100 of taxable assessed valuation permitted tax levy that is available for debt service, but the combined tax rate for meeting the requirements of the Bonds together with any other ad valorem tax imposed for the District may not exceed $0.75 per $100 of taxable valuation.

Additionally, the Bonds are secured by a pledge of the Net Revenues. "Net Revenues" means the Gross Revenues of the District, less Operating Expenses incurred for the same period(s). "Gross Revenues" means all patient revenues, third party reimbursement, rates, fees, charges, rents, taxes, and other income and receipts (exclusive of gifts, contributions or donations received specifically restricted to a particular purpose inconsistent with their use for the payments required pursuant to the Order) in each case, derived by or for the account of the District from the operation and ownership of the System, including proceeds from insurance, accounts receivable, inventory and other tangible and intangible property, agreements respecting Medicare, Medicaid and any other governmental health care programs, contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of the District. "Operating Expenses" means the District's reasonable and necessary current expenses for operation, maintenance, repairs and ordinary restoration of the System. Operating Expenses include, without limiting the generality of the foregoing, administrative expenses, insurance premiums, legal and engineering expenses, payments to pension, retirement, health and hospitalization funds, any taxes, governmental charges, and any other expenses required to be paid by the District, all to the extent properly and directly attributable to the operation of the System. Operating Expenses do not include any provision for (a) depreciation, amortization or similar charges, (b) costs of expenses for new construction or (c) deposits or transfers of monies to the credit of any fund established under the Order. "System" means all facilities of the District, including but not limited to facilities constructed, purchased or otherwise acquired, furnished and equipped with the proceeds of the Bonds, together with all additions thereto, and betterments and replacements thereof, or any of the same, of any nature whatsoever.

The District also from time to time may grant a pledge of the Net Revenues to secure other indebtedness of the District, which lien may be senior to, on a parity with, or subordinate to, the lien on the Net Revenues securing the Bonds, in the sole discretion of the District. **There can be no assurance that the District will not grant a lien on the Net Revenues to secure indebtedness of the District that is senior to the lien on the Net Revenues securing the Bonds. If there shall exist any such senior lien on the Net Revenues, there can be no assurance that Net Revenues would be available to pay debt service on the Bonds.**

The Order does not create a mortgage or other security interest on real property of the District.

In addition to the Bonds, the District's Combination Tax and Revenue Bonds, Series 2013 (the "Existing Bonds"), issued on December 19, 2013 and currently outstanding in the aggregate principal amount of $10,000,000, also are secured by the Ad Valorem Levy and the Net Revenues, on a parity with the Bonds. See "DEBT INFORMATION – Table 7" herein. Upon the issuance of the Bonds, the District has no outstanding bonded indebtedness other than the Existing Bonds and the Bonds, and the District does not expect to incur additional bonded indebtedness in the near future. The District may not issue any additional bonds supported by the Ad Valorem Levy without voter approval.

Tax Rate Limitation

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt, within the limits prescribed by law. Pursuant to Article IX, Section 9, of the Texas Constitution and an election held in the District on June 24, 1967 and approved by a majority of the participating voters, the maximum ad valorem tax rate of the District is limited to $0.75 per $100 of assessed valuation for all purposes. The Election authorizing the levy of this constitutional tax in an amount sufficient, within the foregoing limitation, to pay the principal of and interest on the Bonds and the Existing Bonds was held and approved by the voters on November 5, 2013.

Redemption Provisions

Optional Redemption. . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after August 15, 2020, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2019 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all the Bonds of a particular stated maturity are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Bond (or the principal amount thereof to be redeemed) will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Redemption. . . The Bonds maturing on August 15, 2034 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on August 15 in the following years as set forth below:

Bonds Due August 15, 2034

Year	Principal Amount
2032	$ 955,000
2033	1,000,000
2034	1,045,000*

*Stated maturity.

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption shall be reduced by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been purchased by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) redeemed pursuant to the optional redemption provision described above and not theretofore credited against a mandatory sinking fund requirement.

Notice of Redemption . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING WHETHER OR NOT ONE OR MORE REGISTERED OWNERS MAY HAVE FAILED TO RECEIVE SUCH NOTICE.

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

Defeasance

The Order provides for the defeasance of the Bonds when the payment on the Bonds to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or escrow agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid; provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There can be no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There can be no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

Neither the District nor either of the Underwriters can give or gives any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered 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 Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Order. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

Principal of, interest on, and redemption price of the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or 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 Order and summarized under "THE BONDS - Transfer, Exchange, and Registration" below.

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, N.A. dba Bank of Texas, Austin, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a bank or trust company 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.

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. The principal of the Bonds is payable at maturity or upon prior redemption upon their presentation and surrender to 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.

Transfer, Exchange and Registration

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer or exchange with respect to Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) any portion of a Bond called for redemption prior to maturity, within 30 days prior to its redemption date.

Record Date for Interest Payment

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

Bondholder Remedies

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners of the Bonds, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds, or the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the holders of Bonds upon any failure of the District to perform in accordance

with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W. 3d 325 (June 30, 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 State legislature has effectively waived the District's sovereign immunity from a suit for money damages, holders of Bonds may not be able to bring such a suit against the District for breach of the covenants in the Bonds or in the Order. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, holders of debt of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Amendments to the Order

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of Bonds aggregating in principal amount 51% of the aggregate principal amount of then outstanding Bonds that are subject to the proposed amendment, amend the Order; except that, without the consent of 100% of the holders in aggregate principal amount of the then outstanding Bonds, no such amendment 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 of, or redemption premium, if any, payable on any outstanding Bonds, (4) modify the terms of payment of principal of or interest or redemption premium on outstanding Bonds or any of them or impose any condition with respect to such payment or alter the pledge securing their payment or (5) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment.

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TAX INFORMATION

Ad Valorem Tax Law

The appraisal of property within the District is the responsibility of the Upton County Appraisal District (the "Appraisal District"). Excluding agricultural and qualifying open-space land, which may be taxed on the basis of productive capacity, and other special appraisal rules applicable to certain specified types of property, the Appraisal District is required under the Title I of the Texas Tax Code, as amended (herein the "Property Tax Code"), to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, and (2) the sum of (a) 10% of the appraised value of the property in the preceding year, (b) the appraised value of the property for the preceding year, and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The District may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the District by petition filed with the Appraisal Review Board.

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

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

Under Article VIII, Section 1-b, 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 freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of

age or older to the amount of taxes 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, such freeze on ad valorem taxes 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. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded. The District can make no representations or predictions concerning the impact such tax limitation would have on the District's tax rate, financial condition or ability to make debt service payments.

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.

Certain property of the State and its political subdivisions; the United States of America and certain of its instrumentalities; charitable organizations; schools and other specified organizations; property exempt by federal law; and other property specified by the Texas Constitution, the Property Tax Code, and other State law are exempt in whole or in part from taxation.

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 the State 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 the exemption from taxation of "goods-in-transit." Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

A county or municipality may utilize tax increment financing through a Tax Increment Financing Zone ("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, including a hospital district within the boundaries of the TIF, 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 municipality created the reinvestment zone. Each taxing unit, including county hospital districts, 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.

Application of Property Tax Code by the District

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

The District grants an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

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

The District does not tax nonbusiness personal property; and the Appraisal District collects taxes for the District.

The District does permit split payments, and discounts are not allowed.

The District does not tax freeport property.

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

Effective Tax Rate and Rollback Tax Rate

By the later of September 30 or 60 days following the receipt by the District of the certified appraisal roll, the District adopts a tax rate per $100 taxable value for the current year. 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 the Property Tax Code, the District must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The Board 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 Property 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.

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

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.

Taxes levied to pay debt of the District, including without limitation the Bonds and the Existing Bonds, are not subject to rollback.

Property Assessment and Tax Payment

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year as modified by a factor determined by the State comptroller. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

Penalties and Interest

The District has elected to transfer the responsibility of collecting taxes to the Upton County Appraisal District. By the later of September 30 and 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:

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

After July, the penalty remains at twelve percent (12%), and interest increases at the rate of one percent (1%) each month. In addition, State law allows that, if an account is delinquent in July, an amount of up to twenty percent (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 eight percent (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

TABLE 1 — VALUATION, EXEMPTIONS AND TAX DEBT

District Direct Debt

2014 Estimated Taxable Assessed Valuation (100% of Estimated Market Value) [1]	$3,567,660,741
2013 Certified Taxable Assessed Valuation (100% of Estimated Market Value)	3,423,122,916
Outstanding Debt[2]	10,000,000
Plus: The Bonds	14,685,000
Total Direct Debt	$24,685,000
As a % of 2014 Estimated Assessed Valuation	0.69%
As a % of 2013 Certified Assessed Valuation	0.72%

(1) Estimated and uncertified; provided by Upton County Appraisal District.
(2) Outstanding principal amount of the Existing Bonds.

TABLE 2 — TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Tax Year 2013	Tax Year 2012	Tax Year 2011	Tax Year 2010	Tax Year 2009
Real Property	$ 81,857,767	$ 80,694,756	$ 78,197,842	$ 75,977,365	$ 73,236,941
Personal Property	3,550,761,675	3,408,928,061	3,617,607,518	2,569,129,842	2,433,165,418
Gross Value	$3,632,619,442	$3,489,622,817	$3,695,805,360	$2,645,107,207	$2,506,402,359
Less Exemptions	64,958,701	66,499,901	64,742,737	64,784,682	60,745,860
Net Taxable Value	$3,567,660,741	$3,423,122,916	$3,631,062,623	$2,580,322,525	$2,445,656,499

Source: Upton County Appraisal District

TABLE 3 — FUNDED 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 of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2010	1,108	$2,445,656,499	$2,207,271	$ 0	0.00%	$ 0
2011	1,113	2,580,322,525	2,318,349	0	0.00%	0
2012	1,320	3,631,062,623	2,750,805	0	0.00%	0
2013	1,413	3,423,122,916	2,422,592	0	0.00%	0
2014	1,459	3,567,660,741[4]	2,445,278	$24,685,000[3]	0.69%[3]	16,919[3]

(1) Source: Municipal Advisory Council of Texas
(2) As reported by the Upton County Appraisal District; subject to change during the ensuing year.
(3) Includes the Bonds and the Existing Bonds.
(4) Estimated and uncertified; provided by the Upton County Appraisal District.

TABLE 4 — TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Total Collections
2010	$ 0.106500	$ 0.106500	$ 0.0000	$ 2,151,286	99.68%
2011	0.086800	0.086800	0.0000	2,122,830	99.71%
2012	0.088900	0.088900	0.0000	2,293,772	98.22%
2013	0.088900	0.088900	0.0000	3,228,091	99.06%
2014	0.099200	0.099200	0.0000	3,417,076	N/A[(1)]

Source: Upton County Appraisal District

(1) Tax bills for Tax Year 2013 and Fiscal Year 2014 were mailed to property owners in October 2013 and will be delinquent if not paid by February 1, 2014.

TABLE 5 —TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2013 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
COG Operating LLC	Oil & Gas	$ 774,182,680	22.62%
Pioneer Natural	Natural Gas	668,979,593	19.54%
Summit Petroleum LLC	Oil & Gas	187,585,144	5.48%
Chevron U.S.A., Inc-WI	Oil & Gas	109,997,832	3.21%
Apache Corp	Oil & Gas	100,752,674	2.94%
SM Energy Company	Energy	87,502,955	2.56%
Exxon Mobil Corp	Oil & Gas	64,792,438	1.89%
Parsley Energy Operations LLC	Energy	64,621,340	1.89%
Atlas Pipeline Mid-Continent	Pipeline	56,393,400	1.65%
Mobil Prod Tex/NM Inc	Oil & Gas	52,872,127	1.54%
Total:		$ 2,167,680,183	63.32%

Source: Upton County Appraisal District

Tax Debt Limitation

The District's ability to issue debt payable from taxes is limited by tax rate limitations imposed on the District by the Texas Constitution. The District's ad valorem tax rate for all purposes (debt service and maintenance operations) cannot exceed $0.75 per $100 of valuation. (See "THE BONDS - Tax Rate Limitation").

TABLE 6 — ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping Tax Debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table depicted as of March 28, 2014 reflects the estimated share of overlapping Tax Debt of the District.

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Taxing Jurisdiction	As of	Total Debt[1]	Estimated % Overlapping	Overlapping Debt
Rankin Independent School District	02/28/14	$ 6,780,000	100.00%	$ 6,780,000
Upton County	10/31/13	6,807,669	71.30%	4,853,868
Estimated (Net) Overlapping Debt				$ 11,633,868
The District[2][3]		$24,685,000		24,685,000
Total Direct & Estimated Overlapping Debt				$ 36,318,868
As a % of 2014 Estimated Taxable Assessed Valuation				1.02%
As a % of 2013 Certified Taxable Assessed Valuation				1.06%

(1) Gross Debt.

(2) Includes the outstanding principal amount of the Bonds and the Existing Bonds.

(3) Does not include outstanding debt payable from maintenance and operations taxes.

DEBT INFORMATION

TABLE 7 — OUTSTANDING DEBT SERVICE REQUIREMENTS

The Bonds and the Existing Bonds are the only outstanding indebtedness of the District. The following are the principal and interest payment requirements with respect to the Existing Bonds and the Bonds for the years shown below. For purposes of calculating the principal payable in any year, the relevant maturity is reflected.

Fiscal Year Ended 9/30	Debt Service for Existing Bonds	The Bonds		Total Debt Service
		Principal	Interest	
2014	$ 161,026.80	$ -	$ -	$ 161,026.80
2015	718,887.20	415,000	672,544.97	1,806,432.17
2016	718,904.20	520,000	566,812.50	1,805,716.70
2017	718,898.40	540,000	546,012.50	1,804,910.90
2018	718,869.80	560,000	524,412.50	1,803,282.30
2019	718,518.40	585,000	502,012.50	1,805,530.90
2020	718,736.60	605,000	478,612.50	1,802,349.10
2021	718,716.80	630,000	454,412.50	1,803,129.30
2022	718,459.00	655,000	429,212.50	1,802,671.50
2023	718,323.30	680,000	403,012.50	1,801,335.80
2024	718,145.50	710,000	375,812.50	1,803,958.00
2025	718,383.60	735,000	347,412.50	1,800,796.10
2026	718,019.90	765,000	318,012.50	1,801,032.40
2027	718,522.15	800,000	287,412.50	1,805,934.65
2028	718,739.15	825,000	259,412.50	1,803,151.65
2029	718,051.95	855,000	229,506.26	1,802,558.21
2030	718,419.45	885,000	197,443.76	1,800,863.21
2031	718,441.50	920,000	163,150.00	1,801,591.50
2032	718,953.00	955,000	127,500.00	1,801,453.00
2033	718,147.90	1,000,000	86,912.50	1,805,060.40
2034	718,958.10	1,045,000	44,412.50	1,808,370.60
Totals	$14,532,122.70	$14,685,000	$7,014,032.49	$36,231,155.19

Estimated Average Annual Debt Service Requirements	$1,725,293.10
Estimated Maximum Annual Debt Service Requirement.....	$1,808,370.60

TABLE 8 — AUTHORIZED BUT UNISSUED TAX DEBT

Upon the issuance of the Bonds, the District will have no authorized but unissued (a) general obligation bonds or (b) bonds secured by Net Revenues.

TABLE 9 — OTHER OBLIGATIONS

Capital Leases

The District is obligated under leases for equipment that are accounted for as capital leases. See "Note 8: Long-Term Obligations - *Capital Lease Obligations*" in Appendix B.

Defined Benefit Plan

The District participates in the State-wide Texas County and District Retirement System (the "TCDRS") retirement plan. The assets and benefit obligations of the District are commingled with the TCDRS as a whole. The TCDRS provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the TCDRS. The Board of Trustees of the TCDRS is responsible for the administration of the State-wide agent multiple-employer public employee retirement system. TCDRS in the aggregate issues a comprehensive annual financial report (the "CAFR") on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034. See "Note 9: Pension Plan" in Appendix B.

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FINANCIAL INFORMATION

TABLE 10 — CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (Dollars in Thousands)

	Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Operating Revenues:					
Net Patient Service Revenue, net of	$ 4,328,678	$ 1,920,486	$ 1,725,613	$ 1,388,314	$1,243,374
Medicaid supplemental pay't program	1,920,676	-	-	-	-
Other	23,165	13,853	104,846	62,114	16,935
Total Operating Revenues	6,272,519	1,934,339	1,830,459	1,450,428	1,260,309
Operating Expenses:					
Nursing services	1,155,609	1,216,593	1,028,571	960,644	953,344
Other professional services	2,045,566	1,229,035	974,812	949,364	905,867
Clinic services	450,205	304,950	100,885	39,235	144,045
Dietary services	83,971	75,498	78,320	72,992	78,549
Household and property services	340,933	284,204	299,053	160,113	144,560
Administrative and general services	1,283,532	964,855	914,224	656,050	614,441
Depreciation	366,904	217,417	120,404	74,384	70,854
Total Operating Expenses	5,726,720	4,292,552	3,516,269	2,912,782	2,911,660
Operating (Loss) Income	545,799	(2,358,213)	(1,685,810)	(1,462,354)	(1,651,351)
Nonoperating Revenues (Expenses):					
Investment Income	11,318	15,815	6,891	10,463	-
Interest Expense	(77,088)	(50,824)	(14,703)	-	22,673
Noncapital grants and gifts	48,345	41,617	51,745	31,573	119,166
Property taxes	3,350,530	2,287,146	2,137,727	2,106,454	1,548,051
Total Nonoperating Revenues	3,333,105	2,293,754	2,181,660	2,148,490	1,689,890
Excess of Revenues Over Expenses Before Capital Grants and Gifts	-	-	495,850	686,136	-
Capital Grants and Gifts	-	-	5,440	-	-
Increase (Decrease) in Net Position	3,878,904	(64,459)	501,290	686,136	38,539
Net Assets, Beginning of Year, as Previously Reported	-	-	-	4,082,157	-
Adjustment Applicable to Prior Years	-	-	-	(156,257)	-
Net Position, Beginning of Year, as Restated	5,048,867	5,113,326	4,612,036	3,925,900	4,043,618
Net Position, End of Year	$ 8,927,771	$ 5,048,867	$ 5,114,326	$ 4,612,036	$4,082,157

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Financial Policies

The District's basic financial statements are prepared in accordance with Statement No. 34 of the Governmental Accounting Standards Board (GASB), Basic Financial Statement, and Management's Discussion and Analysis, for State and Local Governments, which establishes standards for external financial reporting for all state and local governmental entities, which include a balance sheet, a statement of revenue, expenses, and changes in net assets, and a direct method statement of cash flows. It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted.

Additionally, the financial statements of the District are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board issued after November 30, 1989, unless they conflict with or contradict GASB pronouncements.

For more information regarding the District's accounting policies, see "Note 1: Nature of Operations and Significant Accounting Policies" in Appendix B.

Investments

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

Investment Authority and Investment Practices of the District

Under State law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State 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) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) where: (a) the funds are invested by the Town through a broker (selected from a list adopted by the Town) or a depository institution that has a main office or branch office in the State and that is selected by the District; (b) the broker or depository institution selected by the District arranges for the deposit of funds in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; (d) the depository institution, broker, clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3, or certain entities described in Section 2257.041(d) of the Texas Government Code selected by the District acts as a custodian for the District with respect to the certificates of deposit issued for the account of the District; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District,

held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated 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, and (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, 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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

State law requires that investments 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 probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board.

Additional Investment Provisions

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

Current Investment Strategies

The District's approved investment policy conforms to State law and limits maturities of United States Treasury and United States Agency obligations to no more than ten (10) years and estimated average lives of mortgage securities to no more than five (5) years from the date of purchase.

The District's investment policy covers the investment portfolio of the Hospital. The maximum dollar weighted average maturity is two (2) years for the Hospital. The District maintains custody of its investments through existing banking relationships.

TABLE 11 - CURRENT INVESTMENTS[(1)]

As of September 30, 2013, the District's investable funds amounted to $8,532,841. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Bank Deposits	67.76%	$ 5,781,794	$ 5,781,794
Certificates of Deposit	32.24%	$ 2,751,047	$ 2,751,047
Total	100.00%	$ 8,532,841	$ 8,532,841

(1) Based upon the District's Investment Report for the quarter ended September 30, 2013.

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Naman, Howell, Smith & Lee, PLLC, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of individuals, or of corporations, except as provided below. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in Appendix C hereto.

Interest on the Bonds owned by a corporation (other than an S corporation, a regulated investment company, a real estate investment trust (REIT), a real estate mortgage investment conduit (REMIC) or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating such corporation's alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by the Code is computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order, and certain additional certifications regarding compliance by the District with applicable federal income tax law subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the use of the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds of the Bonds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes.

Original Issue Discount on the Bonds

Original issue discount on the Bonds will be excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the

constant interest method over the life of a Discount Bonds, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bonds and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

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

In the event of the sale or other taxable disposition of a Discount Bonds Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bonds were held) is includable in gross income.

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

Tax Accounting Treatment of Premium Bonds

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Continuing Disclosure Agreement, the District has undertaken to provide to the MSRB certain information more particularly described below for the benefit of the registered owners of the Bonds. The District is required to comply with the Continuing Disclosure Agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the Continuing Disclosure Agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB. This information currently is available free of charge from the MSRB via EMMA at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to certain information vendors 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 5, inclusive, and 7 herein, 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 will provide the updated information to the MSRB.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's internet web site (currently EMMA) or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data of the type described in the preceding paragraph 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 the last day of March in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide timely notices of certain events to the MSRB through EMMA. 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 agreed to provide the foregoing information only as described above. The general public currently is able to access continuing disclosure information filed with the MSRB on EMMA free of charge at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement 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 (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of 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 amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

Compliance with Prior Undertakings

The District has never entered into a continuing disclosure undertaking in order to enable an underwriter to comply with the Rule.

OTHER INFORMATION

Rating

The Bonds have been rated "A2" by Moody's. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's, and none of the District, the Financial Advisor and the Underwriters makes any representation as to the appropriateness of the rating. There can be no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely Moody's, if in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Litigation and Regulatory Matters

It is the opinion of District management that there is no pending litigation against the District that would have a material adverse financial impact upon the District's financial condition or its operations.

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

Registration and Qualification of Bonds for Sale

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Bonds are negotiable instruments 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 at least "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 capital of one million dollars or more, 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. No review by the District has been made of the 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 unqualified approving legal opinion of the Attorney General of the State approving the issuance of the 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 Bonds will be excludable 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. A form of such opinion is attached hereto as Appendix C. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds, also will 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 "PLAN OF FINANCE - Purpose", "THE BONDS" (except the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaptions "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" under the caption "OTHER INFORMATION," and such firm is of the opinion that the information relating to the Bonds and legal issues contained under such captions and subcaptions is a fair and accurate description of the laws and legal issues addressed therein, and with respect to the Bonds, such information conforms to the Order. The legal fee to be paid to 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 Underwriters by McGuireWoods LLP, Houston, Texas, as counsel for the Underwriters.

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 or firm, as applicable, rendering such opinion does not become an insurer or guarantor of the expression of professional judgment, or 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.

Authenticity of Financial Data and Other Information

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

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at the respective prices indicated on the inside front cover of this Official Statement, less an underwriting discount of $133,909.50, and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed and may in the future perform various financial advisory and investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

Forward-Looking Statements Disclaimer

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

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

Miscellaneous

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

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

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

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/s/ Tracy Clanton

President, Board of Directors
Rankin County Hospital District

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APPENDIX A

GENERAL INFORMATION REGARDING
RANKIN COUNTY HOSPITAL DISTRICT

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GENERAL INFORMATION REGARDING RANKIN COUNTY HOSPITAL DISTRICT

THE DISTRICT

The Rankin County Hospital District (the "District") is a political subdivision of the State of Texas (the "State") located in Upton County, Texas (the "County"). The District currently operates the Rankin County Hospital (the "Hospital") in the City of Rankin, Texas (the "City"), and provides 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. Admitting physicians are primarily practitioners in the local area.

The District was created pursuant to Article IX, Section 9 of the Texas Constitution, Chapter 182, Acts of the 60th legislature, Regular Session 1967, subject to an election held June 24, 1967, in which 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" in the forepart of this Official Statement for more information regarding the District and its facilities.

The McCamey County Hospital District may be consolidated into the District upon the request of twenty-five percent (25%) or more of the qualified taxpaying voters of each such hospital district to submit the consolidation proposal for vote. Consolidation of the District and the McCamey County Hospital District must be approved separately by a two-thirds majority of the voters voting in each such hospital district at an election ordered and held for that purpose. Upon consolidation, refunding bonds may be issued by the consolidated district to refund any outstanding bonds of either or both districts, including without limitation the Bonds and the Existing Bonds (each, as defined in the forepart of this Official Statement), in each case to the extent such bonds are then outstanding.

THE COUNTY

General

The 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. The County is a rural area and a member of the Permian Basin Local Workforce Development region. The City is the county seat of the County.

Population

According to the United States Census Bureau (the "Census Bureau"), the County had an estimated population of 3,355 as of 2010. The County is comprised of approximately 1,242 square miles, with a population density of 2.7 residents per square mile compared to a State-wide population density of 98.3 residents per square mile, in each case as of July 1, 2010, using Census Bureau estimates. Of the 254 counties in the State, the County ranked 223 in population as of 2010, using Census Bureau estimates. According to county-based population estimates from the Census Bureau, the County's population rose from an estimated 3,355 as of July 1, 2010 to an estimated 3,700 as of July 1, 2012, an increase of approximately 10%. During the same time period, the State population increased from an estimated 25,245,178 residents to an estimated 26,448,193 residents, an increase of 4.7%.

Population Trends in the County

As of July 1	Population
2013	3,372
2012	3,271
2011	3,294
2010	3,352

Source: United States Census Bureau

Unemployment Rates

According to Texas Workforce Commission unemployment figures for July 2013, the County had an unemployment estimate of 77 persons, which represents a rate of 3.7%, compared to a State-wide unemployment rate of 6.7% for the same month. The table below sets forth the employment rates for the County and the State for July of each of the last five years.

	July 2013	July 2012	July2011	July 2010	July 2009
Upton County	3.7%	3.7%	4.8%	4.7%	5.8%
State of Texas	6.7%	7.4%	8.5%	8.5%	8.2%

Source: Texas Workforce Commission

GOVERNANCE

Board of Directors

The District is governed by a five-member board that is elected by the voters of the District as listed on page iii of the forepart of this Official Statement.

Key Administrative Staff

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

Chief Executive Officer. Tommy Johnson, Chief Executive Officer of the District. Mr. Johnson began working for the District in 2011. Mr. Johnson has 31 years of experience in the medical industry and has owned and operated a successful small business. He has spent 31 years as a medical provider, nurse and paramedic, consisting of 19 years as with University Medical Center in Lubbock, Texas, eight years with Covenant Health System in Lubbock, Texas, and currently three years with the District. Mr. Johnson graduated from Texas Tech University in 2000 with a Bachelor of Science degree, graduated from Covenant School of Nursing in 2004 as top student nurse in his class, and graduated in 2010 from Lubbock Christian University, with a Masters Degree in Nursing Leadership and Management.

Chief Financial Officer. Christy Akin, Chief Financial Officer of the District. Mrs. Akin attended Bee County College for Business Management. She has over 20 years of experience in the medical industry beginning as a medical records clerk at Bee County Hospital, Beeville, Texas, and subsequently becoming an Assistant Executive Director of Cathedral Rock Assisted Living facility in Corpus Christi, Texas. She began working for the District's business office in 2008 and has been the Chief Financial Officer of the District since 2012.

Chief Nursing Officer. Brandy Cruz, RN, is the current Chief Nursing Officer of the District and Swingbed Coordinator. Ms. Cruz began working for the District as the Chief Nursing Officer in 2012. Mrs. Cruz has worked in the medical industry as a registered nurse since 2006 and in her career has worked as an operating room and orthopedic charge nurse. She also has substantial experience as a home health nurse and clinical manager. Ms. Cruz holds an Associates Degree in Nursing and Applied Science from Vernon College, Vernon, Texas, and is pursuant a Bachelor's Degree.

Human Resources Officer. Miriam Watson, Human Resources Officer of the District. Mrs. Watson began working for the District in 2013. Mrs. Watson has lived in the City since 1990, graduating from Rankin High School in 1999. Mrs. Watson studied Office Systems Technology and Business Management at Midland College. Prior to joining the District, Mrs. Watson worked in the banking industry for six years in the City, where she gained experience in bookkeeping and lending. Mrs. Watson also worked for the Rankin Independent School District for two years as a teacher's assistant and holds an Associates Degree in Child Development. She began working for the District as the Administrative Assistant prior to assuming her current role as the Human Resource Officer.

HOSPITAL FACILITIES

The City is approximately 54 miles south of the Odessa/Midland metropolitan statistical area. The 2010 census for the City showed a population of 778. The Hospital is a critical access hospital with 15 licensed beds. These beds are licensed for both acute care and swing bed (intermediate) care. One physician and four mid-level are physicians on staff. The Hospital's emergency room is not trauma certified.

The District provides a wide array of continuing care and outpatient services, including the following:

- 15 Licensed Acute Care Beds
- Outpatient Clinic
- Emergency Department
- EMS
- Physical Therapy
- Swing Bed
- CT- Imaging
- Ultrasound Imaging
- Retail Outpatient Pharmacy

The Hospital was erected in 1953. The closest tertiary facilities are approximately 60 miles away in the Midland/Odessa metropolitan area.

THE PROJECT

The Bonds will finance the purchase, construction, acquisition, renovation and equipping of hospital improvements for providing hospital care, including without limitation a new hospital, wellness center (including a pharmacy), clinic and physicians office (the "Project"), and paying the costs associated with the issuance of the Bonds. The project includes a new one-story Critical Access Hospital with an attached two-provider clinic and retail pharmacy on a new 8-acre site. The new 33,960 square foot replacement hospital will include lab, imaging, physical therapy, pharmacy and emergency department services in addition to the 15 inpatient beds. A full dietary department and dining functions will also be provided. A 2,569 square foot clinic and 1,700 square foot retail pharmacy also will be connected to the hospital. The new 9,800 square foot wellness center will include a multi-purpose room, gym facilities, physical therapy area and a large pool and whirlpool which can be used for either therapy or recreation.

OPERATIONS AND UTILIZATION OF THE HOSPITAL

Hospital Services

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

Inpatient Services	Outpatient/Ancillary Services
Acute Care Inpatient	Observation Services
Swing bed	Emergency Room
	Laboratory X-Ray
	Physical Therapy
	Family Clinic
	Respiratory Therapy
	Pharmacy

Accreditation and Licensing

The Hospital was licensed by the Texas Department of Health in 1953.

Historical Utilization Data

Total Patients Admitted at the Hospital

Fiscal Year Ended 9/30	Adults & Children (Inpatient)	Swing bed	Observation	Total
2009	N/A	N/A	N/A	N/A
2010	0	0	0	0
2011	17	0	18	35
2012	12	0	16	28
2013	57	18	63	138

Service Days of Care at the Hospital

Fiscal Year Ended 9/30	Adults & Children (Inpatient)	Swing bed	Total
2009	40	N/A	40
2010	37	N/A	37
2011	34	N/A	34
2012	154	130	284
2013	191	149	340

Average Daily Census at the Hospital

Fiscal Year Ended 9/30	Adults & Children Inpatient	Swing bed	Total
2009	0.10	N/A	0.10
2010	0.10	N/A	0.10
2011	0.09	N/A	0.09
2012	0.42	0.36	0.78
2013	0.52	0.41	0.93

Average Length of Stay at the Hospital

Fiscal Year Ended 9/30	Acute Care	Swing bed
2009	2.35	N/A
2010	2.31	N/A
2011	2.13	N/A
2012	3.50	2.96
2013	2.35	1.84

Average % of Occupancy at the Hospital

Fiscal Year Ended 9/30	Average % of Occupancy Licensed
2009	0.73%
2010	0.67%
2011	0.62%
2012	5.18%
2013	6.20%

Medicare Statistics for the Hospital

Fiscal Year Ended 9/30	Admissions	Discharges	Days of Care	& of Inpatients
2009	13	11	30	16%
2010	11	10	28	19%
2011	9	9	28	52%
2012	22	20	96	55%
2013	139	139	191	41%

Medicaid Statistics for the Hospital

Fiscal Year Ended 9/30	Admissions	Discharges	Days of Care	& of Inpatients
2009	1	1	2	2%
2010	2	2	3	1%
2011	0	0	0	0%
2012	2	2	3	6%
2013	3	0	0	6%

Competitor Hospitals

Health Facilities. The number of acute and psychiatric care hospitals in the County as of February 2013 was two, with a combined average total bed capacity of approximately 14.5, compared to a statewide ratio of 122.2 beds per hospital, according to statistical reports from the Texas Department of State Health Services ("TDSHS"). According to the Texas State Board of Pharmacy data for March 2013, there were three licensed pharmacies in the County. The total number of licensed pharmacies in the State as of 2012 was 6,652.

Health Practitioners. The following information was derived from a TDSHS report of 9/2012:

Direct Patient Care and Primary Care Physicians. As of 2013, there were three direct patient care and primary care physicians practicing in the County, resulting in a ratio of residents to each physician of 1,043.7, compared 462.3 residents per physician in the State. The ratio of direct patient care physicians per 100,000 residents

in the region was 1,565.5, compared to 606 direct patient care physicians per 100,000 residents State-wide. The ratio of physicians in primary care per 100,000 residents in the County was 3,131, compared to 1,438 primary care physicians per 100,000 residents State-wide.

Registered Nurses. As of 2013, 10 registered nurses were working in the County, constituting a ratio of 313.1 residents for each registered nurse, compared to a State-wide ratio of 140.3 registered nurses to residents in the State of Texas. These figures for registered nurses result in a ratio of 319.4 registered nurses per 100,000 residents, compared to 712.8 registered nurses per 100,000 residents State-wide.

Licensed Vocational Nurses. The number of licensed vocational nurses ("LVNs") practicing in the County as of 2013 was 18 constituting a ratio of 173.9 residents per LVN, compared to 355 residents per LVN State-wide. These figures for LVNs result in a ratio of 575 LVNs per 100,000 residents, compared to 281.7 LNVs per 100,000 residents State-wide.

Emergency Medical Technicians. According to data from the TDSHS for November 2011, there were 27 licensed Emergency Medical Technicians ("EMTs") in the County, and 58,266 EMTs State-wide. These figures for EMTs result in a ratio of 862.1 licensed EMTs per 100,000 residents in the County, compared to 225.1 EMTs per 100,000 residents State-wide.

Occupational Therapists. As of November 2011, no occupational therapists were practicing in the County, and 6,800 occupational therapists practicing State-wide. The State-wide ratio of occupational therapists to residents was 3,806.5.

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APPENDIX B

RANKIN COUNTY HOSPITAL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2013

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Rankin County Hospital District

Auditor's Report and Financial Statements

September 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Rankin County Hospital District
September 30, 2013 and 2012

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BKD LLP
CPAs & Advisors

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Directors
Rankin County Hospital District
Rankin, Texas

We have audited the accompanying financial statements of Rankin County Hospital District (the District), which comprise the balance sheets as of September 30, 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Waco, Texas
March 14, 2014

Rankin County Hospital District
Balance Sheets
September 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 2,381,433	$ 2,301,137
Short-term investments	1,740,857	1,744,041
Patient accounts receivable, net of allowance; 2013 - $472,000, 2012 - $631,000	1,312,416	296,085
Property taxes receivable	59,328	16,366
Estimated amounts due from third-party payers	943,503	357,463
Supplies	76,789	58,013
Prepaid expenses and other	44,754	36,277
Total current assets	6,559,080	4,809,382
Noncurrent Investments	1,257,653	-
Capital Assets, Net	2,413,476	1,495,599
Other Assets	18,089	17,579
Total assets	$ 10,248,298	$ 6,322,560
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 88,825	$ 183,868
Note payable to bank	-	247,969
Accounts payable	259,248	165,065
Estimated amounts due to third-party payers	567,405	-
Accrued payroll and payroll taxes	123,948	48,485
Accrued compensated absences	104,097	47,799
Total current liabilities	1,143,523	693,186
Post-Employment Benefits	98,956	121,252
Long-term Debt	78,048	459,255
Total liabilities	1,320,527	1,273,693
Net Position		
Net investment in capital assets	2,246,603	852,476
Unrestricted	6,681,168	4,196,391
Total net position	8,927,771	5,048,867
Total liabilities and net position	$ 10,248,298	$ 6,322,560

See Notes to Financial Statements

Rankin County 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 – $472,000, 2012 – $122,000	$ 4,328,678	$ 1,920,486
Medicaid supplemental payment program	1,920,676	-
Other	23,165	13,853
Total operating revenues	6,272,519	1,934,339
Operating Expenses		
Nursing services	1,155,609	1,216,593
Other professional services	2,045,566	1,229,035
Clinic services	450,205	304,950
Dietary services	83,971	75,498
Household and property services	340,933	284,204
Administrative and general services	1,283,532	964,855
Depreciation	366,904	217,417
Total operating expenses	5,726,720	4,292,552
Operating Income (Loss)	545,799	(2,358,213)
Nonoperating Revenues (Expenses)		
Investment income	11,318	15,815
Interest expense	(77,088)	(50,824)
Noncapital grants and gifts	48,345	41,617
Property taxes	3,350,530	2,287,146
Total nonoperating revenues	3,333,105	2,293,754
Increase (Decrease) in Net Position	3,878,904	(64,459)
Net Position, Beginning of Year	5,048,867	5,113,326
Net Position, End of Year	$ 8,927,771	$ 5,048,867

See Notes to Financial Statements

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

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	$ 3,293,712	$ 2,562,544
Cash received from uncompensated care related activities	1,920,676	-
Payments to suppliers and contractors	(2,053,240)	(2,131,540)
Payments to employees	(3,223,987)	(1,907,536)
Other receipts, net	22,655	13,501
Net cash used in operating activities	(40,184)	(1,463,031)
Noncapital Financing Activities		
Property taxes supporting operations	3,307,568	2,289,327
Proceeds from issuance of note payable	-	247,969
Principal paid on note payable	(247,969)	-
Noncapital grants and gifts	48,345	41,617
Net cash provided by noncapital financing activities	3,107,944	2,578,913
Capital and Related Financing Activities		
Payment on capital leases	(245,983)	(101,350)
Purchase of capital assets	(1,421,242)	(493,043)
Interest paid on note payable and capital leases	(77,088)	(50,824)
Net cash used in capital and related financing activities	(1,744,313)	(645,217)
Investing Activities		
Net change in investments	(1,254,469)	95,959
Interest income	11,318	15,815
Net cash provided by (used in) investing activities	(1,243,151)	111,774
Increase in Cash and Cash Equivalents	80,296	582,439
Cash and Cash Equivalents, Beginning of Year	2,301,137	1,718,698
Cash and Cash Equivalents, End of Year	$ 2,381,433	$ 2,301,137

See Notes to Financial Statements

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

	2013	2012
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating income (loss)	$ 545,799	$ (2,358,213)
Depreciation	366,904	217,417
Loss on disposal of capital assets	2,643	-
Provision for uncollectible accounts	471,513	121,880
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(1,487,844)	(342,359)
Estimated amounts due to/from third-party payers	(18,635)	862,537
Accounts payable and other accrued expenses	107,199	21,647
Other assets and liabilities	(27,763)	14,060
Net cash used in operating activities	$ (40,184)	$ (1,463,031)
Supplemental Cash Flows Information		
Capital lease obligation incurred (terminated) for capital assets	$ (232,910)	$ 604,866
Capital assets acquisitions included in accounts payable	$ 96,449	$ -

See Notes to Financial Statements

Rankin County Hospital District
Notes to the Financial Statements
September 30, 2013 and 2012

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

Nature of Operations and Reporting Entity

Rankin County Hospital District (the District) operates a critical access hospital and clinic located in Rankin, Texas. The District is a political subdivision of the state of Texas that primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Rankin and the surrounding area. The District is governed by a 5 member board of directors elected from the population in the District. The District is a taxing district with property taxes levied on real property within the District.

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 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 are 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, 2012, cash equivalents consisted of certificates of deposit. There were no cash equivalents at September 30, 2013.

Property Taxes

The District received approximately 34% in 2013 and 53% in 2012 of its financial support from property taxes. These funds were used 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 $0.000889 for both 2013 and 2012. The District recognized $3,350,530 and $2,287,146 in property tax revenue in 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.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. At September 30, 2013, noncurrent investments consisted of certificates of deposit with a maturity greater than one year. Investment income includes interest income.

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:

Buildings	15 – 40 years
Equipment	3 – 10 years

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 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 two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

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 care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the county, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. 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 2013, 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 $906,000, which is included in net patient service revenue in the statement of revenues, expenses, and change in net position for the year ended September 30, 2013.

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) by Medicare. As a CAH, the District is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the District's licensed beds are limited to 25, and the District's acute average length of stay may not exceed 96 hours. The District is reimbursed for substantially all 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.

The estimated amount due from third-party payers at September 30, 2013 and 2012 represents settlements due from the Medicare and Medicaid program for each respective fiscal year. The District is also subject to adjustments on cost reports already filed that remain open.

Approximately 56% and 75% 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.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

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 will expand existing Medicaid managed care programs and established two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The demonstration is effective from December 12, 2011 to September 30, 2016, and will likely have a material impact on the District's future Medicaid funding. The funding received through this demonstration will largely replace the funding the District has historically received under the Texas Medicaid 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 $3,280,000 for the year ended September 30, 2013. At September 30, 2013, the District had advanced approximately $1,360,000 into the program for fiscal year 2013. There were no amounts received or advanced in 2012.

The Texas Health and Human Services Commission has expanded state Medicaid managed care programs, and is converting a number of beneficiaries previously covered under traditional Medicaid arrangements into these managed care plans. The District generally expects payments under the managed care plans to be equivalent to payments under the traditional plan. However, this outcome is contingent on the District continuing to be able to negotiate appropriate rates with these managed care plan carriers.

Note 3: Deposits and Investment Income

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 policy regarding custodial credit risk is to follow the provisions of the Texas Public Funds Investment Act.

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 $5,591,722 and $4,088,229 were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2013	2012
Carrying value:		
Deposits	$ 5,379,943	$ 4,045,178
Included in the following balance sheets captions:		
Cash and cash equivalents	$ 2,381,433	$ 2,301,137
Short-term investments	1,740,857	1,744,041
Long-term investments	1,257,653	-
	$ 5,379,943	$ 4,045,178

Investment Income

Investment income for the years ended September 30, 2013 and 2012, consisted of interest earned on bank deposits.

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	$ 1,209,247	$ 304,215
Medicaid	17,579	22,607
Other third-party payers	280,765	286,931
Patients	276,825	313,332
	1,784,416	927,085
Less allowance for uncollectible accounts	472,000	631,000
	$ 1,312,416	$ 296,085

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2013			
	Beginning Balance	Additions	Disposals or Transfers	Ending Balance
Land	$ 1,875	$ -	$ -	$ 1,875
Buildings	1,206,786	-	202,764	1,409,550
Equipment	2,070,401	1,110,009	(419,240)	2,761,170
Construction in progress	202,764	407,682	(202,764)	407,682
	3,481,826	1,517,691	(419,240)	4,580,277
Less accumulated depreciation:				
Buildings	657,249	17,972	-	675,221
Equipment	1,328,978	348,932	(186,330)	1,491,580
	1,986,227	366,904	(186,330)	2,166,801
Capital assets, net	$ 1,495,599	$ 1,150,787	$ (232,910)	$ 2,413,476

	2012			
	Beginning Balance	Additions	Disposals or Transfers	Ending Balance
Land	$ 1,875	$ -	$ -	$ 1,875
Buildings	913,285	-	293,501	1,206,786
Equipment	1,407,880	662,521	-	2,070,401
Construction in progress	60,877	435,388	(293,501)	202,764
	2,383,917	1,097,909	-	3,481,826
Less accumulated depreciation:				
Buildings	654,327	2,922	-	657,249
Equipment	1,114,483	214,495	-	1,328,978
	1,768,810	217,417	-	1,986,227
Capital assets, net	$ 615,107	$ 880,492	$ -	$ 1,495,599

As of September 30, 2013, the construction in progress primarily consists of the addition of two duplex houses and software costs for EHR certification. The projects are expected to be completed in 2014 with an estimated cost of approximately $250,000, excluding maintenance fees, and will be funded by operations of the District during the next fiscal year.

Note 6: Note Payable to Bank

The note payable to bank was due June 2013, with principal and interest payable monthly at an interest rate of 3.2%. The note was paid in full during 2013. The following is a summary of the note payable transactions for the years ended September 30:

	2013	2012
Beginning balance	$ 247,969	$ -
Additions	-	247,969
Deductions	(247,969)	-
Ending Balance	$ -	$ 247,969

Note 7: Medical Malpractice Claims

The District is a unit of government covered by the Texas Tort Claims Act which, by statute, limits its liability to $100,000 per individual and $300,000 aggregate per claim. The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended September 30:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital lease obligations	$ 643,123	$ -	$ 476,250	$ 166,873	$ 88,825

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital lease obligations	$ 139,607	$ 604,866	$ 101,350	$ 643,123	$ 183,868

In 2013, the District terminated a capital lease with a software vendor prior to the scheduled maturity. As a result of the termination, the remaining balance of the capital lease obligation of approximately $230,000, net of a $65,000 cancellation fee required to be paid by the District, was terminated and the leased assets were returned to the vendor. At the time of termination, the leased assets had a net book value of approximately $233,000. This termination resulted in a loss on disposal of assets of approximately $3,000 being incurred, which is recorded in administrative and general expenses on the accompanying statements of revenues, expenses and changes in net position for the year ended September 30, 2013.

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 $377,540 and $627,823, respectively, net of accumulated depreciation of $163,390 and $142,070, respectively. The following is a

schedule by year of future minimum lease payments under the capital lease including interest at rates of 4% to 11% together with the present value of the future minimum lease payments as of September 30, 2013:

Year Ending September 30,	
2014	$ 96,247
2015	61,048
2016	19,219
Total minimum lease payments	176,514
Less amount representing interest	9,641
Present value of future minimum lease payments	$ 166,873

Note 9: Pension Plan

Plan Description

The District participates in the statewide Texas County and District Retirement System (TCDRS) retirement plan. The assets and benefit obligations of the District are commingled with the TCDRS as a whole. The last actuarial valuation is for the plan year ended December 31, 2012.

The TCDRS provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit plan in the TCDRS. The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 618 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the District, within the options available in the state statutes governing TCDRS. Members can retire at ages 60 and above with 5 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

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

This plan has been adopted in lieu of the normal requirement that employers contribute to the social security program (other than for the Medicare portion).

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. The District contributed using the actuarially determined rate of 6.70% and 5.85% for the months of calendar years in 2013 and 2012, respectively. The contribution rate payable by the employee members for calendar years 2013 and 2012 is 7%, as adopted by the Board of Directors of the District.

Annual Pension Cost

For the District's fiscal year ended September 30, 2013 and 2012, the annual pension cost and actual contributions for the TCDRS plan for its employees was $153,641 and $77,716, 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% for both 2012 and 2011. Both (a) and (b) included an inflation component of 3.5% value method. The actuarial valuation of plan assets was determined using a ten-year smoothed value for the Subdivision Accumulation Fund and the fund value for the Employee Savings Fund. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open 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 30-year open period for the December 31, 2012 and 2011, actuarial valuation.

Three-year Trend Information

Trend Information for the Retirement Plan for the Employees of Rankin County Hospital District

Accounting Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
09/30/11	$ 67,758	100%	$ -
09/30/12	$ 77,716	100%	$ -
09/30/13	$ 153,641	100%	$ -

Funding Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 103.25% funded. The actuarial accrued liability for benefits was $2,570,737 and the actuarial value of assets was $2,654,251, resulting in an overfunded actuarial accrued liability (OAAL) of $83,514. The covered payroll (annual payroll of active employees covered by the plan) was $1,467,071 and the ratio of the OAAL to the covered payroll was 5.69%.

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 10: Post-Employment Benefit

In addition to the pension benefits described in *Note 9*, the District provides post-employment healthcare benefits to a limited group of employees who have retired from the District with more than twenty years of service. There are currently five retirees covered by the benefits. The District's maximum annual exposure is the monthly premiums for the retirees' benefits during the year. The cost of healthcare benefits for retirees was approximately $13,000 and $15,000 for the years ended September 30, 2013 and 2012, respectively. The liability for post-employment benefit recorded by the District was approximately $112,000 and $137,000 at September 30, 2013 and 2012, respectively. The liability was calculated using a discount rate of 3% in both 2013 and 2012.

Note 11: Patient Protection and Affordable Care Act

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 District'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 12: Future Change in Accounting Standards

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.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies certain items that were previously reported as assets and liabilities as deferred outflows resources, deferred inflows of resources or current-period outflows and inflows. Informally, deferred outflows resources and deferred inflows of resources are referred to as "deferrals." Deferrals are reported in the balance sheets and they result from outflows and inflows of resources that have already taken place but are not recognized in the financial statements as revenues and expenses/expenditures because they relate to a future period. This standard is effective for the District's fiscal year ending September 30, 2014.

Note 13: Subsequent Event

In November 2013, the District's board of directors received authorization to issue bonds in one or more series, in an aggregate maximum principal amount of $25,000,000 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 hospital facility, including but not limited to a new hospital, wellness center (including a pharmacy) and physician offices. The District must establish a sinking fund to pay the interest and principal on the bonds.

On December 15, 2013, the District issued $10,000,000 of Series 2013 Combination Tax and Revenue Bonds, of which $111,000 was used to fund the cost of issuance and will be expensed in 2014. The remaining $9,889,000 was deposited to the project fund. Principal payments commence in December 2014 and are due in annual installments through December 2033. The interest rate ranges from .76% to 4.54% and is payable semiannually beginning on June 15, 2014 through the maturity date.

Required Supplementary Information

Rankin County Hospital District

Schedule of Funding Progress

Year Ended September 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Ratio of Assets to AAL	Overfunded AAL (OAAL)	Annual Covered Payroll	OAAL as Percentage of Covered Payroll
12/31/10	$ 2,209,168	$ 2,101,488	105.12	$ 107,680	$ 1,061,770	10.14%
12/31/11	$ 2,442,034	$ 2,432,504	100.39	$ 9,530	$ 1,419,390	0.67%
12/31/12	$ 2,654,251	$ 2,570,737	103.25	$ 83,514	$ 1,467,071	5.69%

APPENDIX C

FORM OF BOND COUNSEL OPINION

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June 20, 2014

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Dallas, Texas 75225

Coastal Securities, Inc.
920 Memorial City Way, 11th Floor
Houston, Texas 77024

Rankin County Hospital District
1105 Elizabeth
Rankin, Texas 79778

RANKIN COUNTY HOSPITAL DISTRICT COMBINATION TAX AND REVENUE BONDS SERIES 2014 IN THE AGGREGATE PRINCIPAL AMOUNT OF $14,685,000

AS BOND COUNSEL FOR THE RANKIN COUNTY HOSPITAL DISTRICT (the "District") with regard to the issuance of the Bonds described above (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, 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.

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued by the District and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the 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 182, Acts of the 60th Legislature, Regular Session 1967 as amended, 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). The Bonds are further secured by a pledge of the Net Revenues of the District's Hospital System, subject to the limitations regarding such pledge set forth in the Order of the District authorizing their issuance (the "Order").

IT IS OUR FURTHER OPINION THAT:

(1) Interest on the 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”);

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the 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

(3) The Bonds are not bank qualified tax exempt obligations as defined under Section 265 of the Code.

In providing such opinions, we have relied on representations of the District, and Raymond James & Associates, Inc., as representative of the underwriters for the Bonds (the “Representative”) with respect to matters solely within the knowledge of the District and the Representative, 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 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 Bonds for federal income tax purposes. We have further relied on the certification of the Representative regarding the mathematical accuracy of certain computations related to the Bonds. If such representations or the 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 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 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 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 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 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 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 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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