

**PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 30, 2020**

**NEW ISSUE: Book-Entry Only**

**RATINGS**

**Moody's** **Aa2**  
**S&P** **AA**  
 See "RATINGS" herein

*The delivery of the Series 2020 Bonds (as defined below) is subject to the opinion of Bracewell LLP, Bond Counsel, to the effect that, under existing law, interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference that is includable in the alternative minimum tax imposed on individuals. See "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a discussion of certain federal tax consequences.*

**\$193,545,000\***

**TARRANT COUNTY CULTURAL EDUCATION FACILITIES FINANCE CORPORATION**

**Hospital Revenue Bonds**

**(Cook Children's Medical Center)**

**Series 2020**



**Dated: Date of Delivery**

**Due: December 1, as shown below**

**INTEREST RATES:**

The Series 2020 Bonds will accrue interest at the fixed rates set forth below.

**INTEREST PAYMENT:**

Interest on the Series 2020 Bonds will be payable on June 1, 2020, and each June 1 and December 1 thereafter, calculated on the basis of a 360-day year of twelve 30-day months.

**DENOMINATIONS:**

The Series 2020 Bonds will be issued in denominations of \$5,000 and any integral multiple thereof.

**REDEMPTION:**

The Series 2020 Bonds will be subject to optional, extraordinary optional and mandatory sinking fund redemption prior to their stated maturity as further described herein.

**PURPOSE:**

The Series 2020 Bonds are being issued to finance and reimburse the costs of constructing and equipping health facilities for Cook Children's Medical Center, a Texas nonprofit corporation, to refund the Bonds To Be Refunded (as defined herein), and to pay the costs of issuance of the Series 2020 Bonds.

**LIMITED OBLIGATIONS:**

The Series 2020 Bonds are limited obligations of the Issuer, payable from loan payments to be made by Cook Children's Medical Center and the other members of the Obligated Group under the Master Indenture as well as funds held under the Trust Indenture.

<b>Maturity Date (December 1)*</b>	<b>Principal Amount</b>	<b>Interest Rate (%)</b>	<b>Yield (%)</b>	<b>CUSIP NO.**</b>	<b>Maturity Date (December 1)*</b>	<b>Principal Amount</b>	<b>Interest Rate (%)</b>	<b>Yield (%)</b>	<b>CUSIP NO.**</b>
2020					2029				
2021					2030				
2022					2031				
2023					2032				
2024					2033				
2025					2034				
2026					2035				
2027					2036				
2028					2040				
\$ _____		% Term Bond due December 1, 2045*; Priced at _____% to Yield _____%; CUSIP NO.** _____							
\$ _____		% Term Bond due December 1, 2050*; Priced at _____% to Yield _____%; CUSIP NO.** _____							

**Neither the State of Texas nor any political subdivision or agency, including Tarrant County, Texas, is obligated to pay the Series 2020 Bonds. Neither the faith and credit nor the taxing power of the State of Texas, Tarrant County, Texas, or any other political subdivision or agency is or will be pledged to the payment of the Series 2020 Bonds. The Issuer has no taxing power.**

**The holders of the Series 2020 Bonds will be deemed to have consented to the terms of the Master Indenture described herein, which amends and restates the existing master indenture, and the First Supplement described herein, which amends certain provisions of the Master Indenture. The Master Indenture will become effective upon the issuance of the Series 2020 Bonds, and the First Supplement may become effective at such time as the Obligated Group obtains the additional required consents, but without any further consent of the holders of the Series 2020 Bonds.**

*The Series 2020 Bonds are offered when, as, and if all the Series 2020 Bonds are simultaneously issued and accepted by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of certain legal matters by the Attorney General of the State of Texas and an opinion as to legality by Bracewell LLP, Bond Counsel. Certain legal matters are subject to the approval of Norton Rose Fulbright US LLP, counsel to Cook Children's, of Brown Pruitt Wambsganss Dean Forman & Moore, P.C., counsel to the Issuer, and of Hawkins Delafield & Wood LLP, counsel to the Underwriters. Series 2020 Bonds in book-entry form are expected to be available for credit through the facilities of DTC on or about February \_\_, 2020.*

**J.P. Morgan**

**Goldman Sachs & Co. LLC**

**Raymond James**

*The date of this Official Statement is February \_\_, 2020*

\* Preliminary, subject to change.

\*\* Copyright, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers are provided for convenience of reference only. None of the Issuer, the Obligated Group, the Bond Trustee or the Underwriters assume any responsibility for the accuracy of such numbers.

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## REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Obligated Group Members or the Underwriters to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2020 Bonds and, if given or made, that information or representation must not be relied upon as having been authorized by any of them. This Official Statement does not constitute an offer to sell the Series 2020 Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Series 2020 Bonds by any person, in any state or other jurisdiction to any person to whom it is unlawful to make an offer, solicitation or sale in that state or jurisdiction.

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 responsibilities to investors under the 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.*

This Official Statement has been approved by the Obligated Group Members, and the use and distribution of this Official Statement for the purposes described in this Official Statement have been authorized by the Issuer and by the Obligated Group Members. Only the information set forth under the headings “THE ISSUER” and “LITIGATION – The Issuer” has been furnished by the Issuer. The information under the heading “BOOK-ENTRY SYSTEM” has been furnished by DTC. The information supplied by each Underwriter is limited to the information relating to it contained under the caption “UNDERWRITING” and the initial pricing information for the Series 2020 Bonds on the cover of this Official Statement. All other information in this Official Statement has been furnished by the Obligated Group Members and other sources identified herein that are believed to be reliable, but is not to be construed as a representation of the Underwriters or the Issuer. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, DTC or the Obligated Group Members since the date of this Official Statement.

The Issuer has consented to the use of this Official Statement. The Issuer has not prepared or assisted in the preparation of this Official Statement, including any financial information included or attached and, except for the information contained under the captions “THE ISSUER” and “LITIGATION – The Issuer,” the Issuer is not responsible for any statements made in this Official Statement. Accordingly, the Issuer disclaims responsibility for the disclosures set forth in this Official Statement (except for such respective captions to the extent applicable to the Issuer) or otherwise made in connection with the offer, sale and distribution of the Series 2020 Bonds. The Issuer does not warrant the accuracy of the statements contained herein relating to the Obligated Group Members nor does it directly or indirectly guarantee, endorse or warrant (1) the creditworthiness or credit standing of the Obligated Group Members, (2) the sufficiency of the security for the Series 2020 Bonds or (3) the value or investment quality of the Series 2020 Bonds. The Issuer makes no representations or warranties whatsoever with respect to any information contained therein except for the information under the sections entitled “THE ISSUER” and “LITIGATION – The Issuer.”

CUSIP numbers are included on the cover page of this Official Statement for the convenience of the holders and potential holders of the Series 2020 Bonds. None of the Issuer, the Obligated Group, the Bond Trustee or the Underwriters takes any responsibility for the accuracy of such numbers. No assurance can be given that the CUSIP numbers for the Series 2020 Bonds will remain the same after the date of issuance and delivery of the Series 2020 Bonds.

References to website addresses herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not a part of, this Official Statement.

The Series 2020 Bonds have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state, nor has the Trust Indenture or the Master Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Series 2020 Bonds have not been registered or qualified under the securities laws of any state (except as may be required in the State of Texas) in reliance upon the state securities law preemption provisions under the Securities Act of 1933, as amended. In certain states, however, the filing of a notice with the state securities commission is required for the public sale of the Series 2020 Bonds in such states. The fact that a notice may have been filed in certain states or that registration or qualification may have been obtained in such states cannot be regarded as a recommendation. Neither such states nor any of their respective agencies have passed upon the merits of the Series 2020 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2020 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2020 BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND COOK CHILDREN'S AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS. THE SERIES 2020 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2020 BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE SERIES 2020 BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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**CAUTIONARY STATEMENT REGARDING PROJECTIONS, ESTIMATES AND OTHER  
FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute projections or estimates of future events, generally known as forward-looking statements. These statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. These forward-looking statements include, but are not limited to, the information under the captions "BONDHOLDERS' RISKS" and "REGULATION OF THE HEALTH CARE INDUSTRY" in PART II of this Official Statement and the information in APPENDIX A to this Official Statement.

The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Other than as may be required by law, the Obligated Group does not plan to issue any updates or revisions to those forward-looking statements if or when changes in their expectations, or events, conditions or circumstances on which such statements are based occur.

The Bank of New York Mellon Trust Company, National Association, in each of its capacities, including but not limited to Bond Trustee, Master Trustee and bond registrar, has not participated in the preparation of this Official Statement and assumes no responsibility for its content.

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### PART II

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## OFFICIAL STATEMENT

**\$193,545,000\***

**Tarrant County Cultural Education Facilities Finance Corporation  
Hospital Revenue Bonds  
(Cook Children's Medical Center)  
Series 2020**

## INTRODUCTORY STATEMENT

This Official Statement is furnished in connection with the offering by Tarrant County Cultural Education Facilities Finance Corporation (the "*Issuer*") of its Hospital Revenue Bonds (Cook Children's Medical Center) Series 2020 (the "*Series 2020 Bonds*"), to be issued in the aggregate principal amount specified above. The Series 2020 Bonds will be issued under a Trust Indenture, dated as of February 1, 2020 (the "*Trust Indenture*"), between the Issuer and The Bank of New York Mellon Trust Company, National Association, as trustee (the "*Bond Trustee*").

The proceeds of the sale of the Series 2020 Bonds will be loaned to Cook Children's Medical Center, a Texas non-profit corporation (the "*Medical Center*"). See "COOK CHILDREN'S HEALTH SYSTEM" herein. The Medical Center will use proceeds of the Series 2020 Bonds to (i) finance and reimburse the costs of constructing and equipping the Project described in "PLAN OF FINANCE" herein, (ii) refund the Bonds To Be Refunded (as defined under the caption "PLAN OF FINANCE" below), and (iii) pay costs of issuance of the Series 2020 Bonds.

The loan of proceeds of the sale of the Series 2020 Bonds to the Medical Center will be made pursuant to a Loan Agreement, dated as of February 1, 2020 (the "*Loan Agreement*"), between the Issuer and the Medical Center. The Medical Center will issue a promissory note in the aggregate principal amount of the Series 2020 Bonds (the "*Series 2020 Note*") to evidence the Medical Center's obligation to repay the loan of the proceeds of the Series 2020 Bonds to the Medical Center. Under the Series 2020 Note and the Loan Agreement, the Medical Center must make payments to the Bond Trustee which, together with other available money, will be sufficient to provide for the full and timely payment of the principal of, premium, if any, and interest on the Series 2020 Bonds. Under the Trust Indenture, the Issuer has collaterally assigned the Series 2020 Note and all of its rights under the Loan Agreement (except certain reimbursement and indemnity rights) to the Bond Trustee as security for the Series 2020 Bonds.

The Series 2020 Note will be issued under the Loan Agreement and be entitled to the benefit and security of a Second Amended and Restated Master Trust Indenture, amended, restated and dated as of February 1, 2020, and effective as of the date of issuance of the Series 2020 Bonds (the "*Master Indenture*"), among W. I. Cook Foundation, Inc., a Texas non-profit corporation doing business as Cook Children's Health Foundation (the "*Foundation*"), Cook Children's Health Care System, a Texas non-profit corporation (the "*Health System*"), the Medical Center, Cook Children's Physician Network, a Texas non-profit corporation (the "*Physician Network*" and, together with the Foundation, the Health System and the Medical Center, the "*Obligated Group*" and, each, an "*Obligated Group Member*"), and The Bank of New York Mellon Trust Company, National Association, as successor trustee (the "*Master Trustee*"). ***The existing master indenture is being amended and restated by the Master Indenture concurrent with the issuance of the Series 2020 Bonds. By acceptance of the Series 2020 Bonds, the purchasers thereof will be deemed to have consented to the amendment and restatement of the existing master indenture and the terms of the Master Indenture including amendment of the Master Indenture by the First Supplement (as defined below).***

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\*Preliminary, subject to change.

Each member of the Obligated Group is jointly and severally obligated to pay the Series 2020 Note and other obligations secured by the Master Indenture (collectively with the Series 2020 Note, such obligations are referred to herein as “Securities”). On the date the Series 2020 Bonds are issued, the Foundation, the Health System, the Medical Center and the Physician Network will be the only Obligated Group Member under the Master Indenture. After the issuance of the Series 2020 Bonds and the application of the proceeds thereof, \$441,405,000\* outstanding principal amount of Securities will be outstanding under the Master Indenture, including the Series 2020 Note but excluding Securities relating to interest rate swaps for which no funds are owed. Subject to certain limitations, the Obligated Group Members are permitted under the terms of the Master Indenture to incur additional debt and other payment obligations from time to time on parity with the Series 2020 Note. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020 BONDS – The Master Indenture” herein.

*The Series 2020 Note constitutes an unsecured general obligation of the Medical Center, and the obligations of the Medical Center under the Master Indenture are also unsecured general obligations of the Obligated Group. The Master Indenture does not provide, and the Series 2020 Note is not secured by, a pledge of, or any other encumbrance on, the revenues or assets of the Obligated Group or any other affiliate of the Medical Center.*

*The Series 2020 Bonds are limited obligations payable by the Issuer only from and to the extent of payments made by the Medical Center under the Series 2020 Note and the Loan Agreement and by the members of the Obligated Group under the Master Indenture, and from funds, if any, held under the Trust Indenture. The Series 2020 Bonds will not be obligations of the State of Texas or any political subdivision or agency, including Tarrant County, Texas. The Issuer has no taxing power.*

Summaries of selected provisions of the Series 2020 Bonds, the Trust Indenture, the Loan Agreement, the Series 2020 Note, and the Master Indenture, as well as information concerning the Obligated Group, the Issuer, and others, follow in this Official Statement, including the Appendices. Certain terms used in this Official Statement are defined in APPENDIX C.

Certain risks are inherent in the purchase of the Series 2020 Bonds. See the information under the captions “BONDHOLDERS’ RISKS” and “REGULATION OF THE HEALTH CARE INDUSTRY” in PART II of this Official Statement for a discussion of certain of these risks.

## **THE ISSUER**

The Issuer is a Texas nonstock, non-profit cultural educational facilities finance corporation established for the purposes set forth in the Cultural Education Facilities Finance Corporation Act, Chapter 337, Texas Local Government Code, as amended from time to time (the “Act”). The Issuer was incorporated pursuant to the Act in March 2003 with the approval of Tarrant County, Texas (the “County”). The Act grants to the Issuer the same powers, authority and rights with respect to health facilities that a health facilities development corporation has with respect to health facilities described in the Health Facilities Development Act, Chapter 221, Texas Health and Safety Code, as amended (the “Health Act”). The Issuer is authorized to provide, expand and improve health facilities (as defined in the Health Act) determined by the Issuer to be needed for the purpose of improving the adequacy, cost and accessibility of health care, research and education within the State of Texas.

The Issuer is governed by a board of directors, consisting of six members (with one vacancy) appointed by the Commissioners Court of the County. The board of directors of the Issuer adopted a bond resolution on January 24, 2020, authorizing the issuance of the Series 2020 Bonds.

Under the terms of the Act and the Health Act, the Issuer has, among other powers, the power to make contracts and incur liabilities; to borrow money at such rates of interest as it may determine; to issue

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\* Preliminary, subject to change.



its bonds in accordance with the provisions of the Act and the Health Act; and to secure any of its bonds or obligations by mortgage or pledge of all or any of its property, franchises and income for the purpose of financing or refinancing all or a portion of the cost of any health facility (as defined in the Health Act).

The directors of the Issuer are not personally liable in any way for any act or omission committed or suffered in the performance of the functions of the Issuer.

Neither the Issuer nor the County has assumed any responsibility for the matters contained herein except, in the case of the Issuer, solely as to matters relating to the Issuer. All findings and determinations by the Issuer and the County, respectively, are and have been made by each for its own internal uses and purposes. Notwithstanding its approval of the Series 2020 Bonds for purposes of Section 147(f) of the Internal Revenue Code of 1986, as amended (the “Code”), the County does not endorse or in any manner, directly or indirectly, guarantee or promise to pay the Series 2020 Bonds from any source of funds of the County or guarantee, warrant or endorse the creditworthiness or credit standing of Cook Children’s, or in any manner guarantee, warrant, or endorse the investment quality or value of the Series 2020 Bonds. The Series 2020 Bonds are payable solely as described in this Official Statement or in the other applicable offering documents relating to the Series 2020 Bonds and are not in any manner payable wholly or partially from any funds or properties otherwise belonging to the Issuer. By its issuance of the Series 2020 Bonds, the Issuer does not in any manner, directly or indirectly, guarantee, warrant or endorse the creditworthiness of or the investment quality or value of the Series 2020 Bonds. The Issuer has no taxing power.

### **COOK CHILDREN’S HEALTH SYSTEM**

The Health System, through controlled affiliates, operates a vertically integrated pediatric healthcare delivery system located in Fort Worth, Texas. The delivery system includes a full-service 444 licensed bed pediatric hospital (the “*Hospital*”) and outpatient ambulatory care facilities, a multi-specialty physician group of primary care pediatricians and pediatric subspecialists, a home health care company, a health maintenance organization, a for-profit group purchasing organization, a real estate holding company, and a captive insurance company. The Hospital is owned and operated by the Medical Center. The Health System, controlled affiliates and their subsidiaries, and the Foundation are collectively referred to herein as “*Cook Children’s*.”

**Except for the Obligated Group, no member of Cook Children’s is liable with respect to the payment of the principal of, premium, if any, or interest on the Series 2020 Note or the Series 2020 Bonds. For the fiscal year ended September 30, 2019, the Obligated Group accounted for 73% of total revenues, 71% of total expenses and 93% of total assets of Cook Children’s.**

For additional information concerning Cook Children’s, *see* “APPENDIX A – COOK CHILDREN’S HEALTH SYSTEM.” For the consolidated financial statements of Cook Children’s for the fiscal years ended September 30, 2019 and 2018, *see* “APPENDIX B.”

### **PLAN OF FINANCE**

The proceeds of the Series 2020 Bonds will be applied to (a) finance and reimburse the costs of constructing and equipping the Project, (b) refund all or a portion of the outstanding Tarrant County Health Facilities Development Corporation Hospital Revenue Bonds (Cook Children’s Medical Center Project) Series 2010A (the “*Bonds To Be Refunded*”), and (c) pay costs of issuance of the Series 2020 Bonds.

*See* “APPENDIX A – COOK CHILDREN’S HEALTH SYSTEM – STRATEGIC AND CAPITAL PLANS – Strategic Expansions” for a discussion of the capital projects expected to comprise the “Project” financed with proceeds of the Series 2020 Bonds.

The refunding of the Bonds To Be Refunded is, among other things, dependent upon the ability of the Medical Center to reduce debt service costs, which is dependent upon market conditions and other considerations. Consequently, the extent to which proceeds of the Series 2020 Bonds will be used to refund the Bonds To Be Refunded will be decided by the Medical Center, in its sole discretion, at the time of sale and pricing of the Series 2020 Bonds. No assurance can be given that the Bonds To Be Refunded will be refunded in part, as a whole, or at all.

#### **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds for the plan of finance to be funded in part by the Series 2020 Bonds are set forth in the table below. All amounts are shown rounded to the nearest whole dollar. Totals may not foot due to rounding.

**Sources of Funds:**

Principal amount of Series 2020 Bonds  
[Net] original issue [premium/discount]

**Total Sources**

**Uses of Funds:**

Project Costs  
Escrow Deposit for the  
Bonds To Be Refunded  
Costs of Issuance<sup>(1)</sup>

**Total Uses**

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<sup>(1)</sup>Includes underwriting, legal, and accounting fees, initial fees of the Bond Trustee and the Master Trustee, publication costs, and printing expenses.

## PRO FORMA ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the principal and interest due on long-term indebtedness of the Obligated Group after the issuance and application of proceeds of the Series 2020 Bonds, on the assumptions noted below. All amounts are shown rounded to the nearest whole dollar. Totals may not foot due to rounding.

<b>Fiscal Year Ending September 30</b>	<b>Series 2020 Bonds</b>		<b>Outstanding Debt Service<sup>(1)(2)</sup></b>	<b>Aggregate Debt Service<sup>(1)(2)</sup></b>
	<b><u>Principal</u></b>	<b><u>Interest</u></b>		
2020			\$ 6,246,009	
2021			15,282,605	
2022			15,280,230	
2023			15,279,855	
2024			15,280,980	
2025			17,997,530	
2026			19,083,283	
2027			19,100,846	
2028			19,115,291	
2029			19,135,536	
2030			19,160,468	
2031			18,995,090	
2032			14,065,875	
2033			14,063,125	
2034			14,066,375	
2035			14,064,875	
2036			21,721,544	
2037			23,404,069	
2038			28,837,381	
2039			28,844,075	
2040			28,839,906	
2041			10,447,375	
2042			10,444,500	
2043			10,444,750	
2044			10,446,875	
2045			10,444,750	
2046			-	
2047			-	
2048			-	
2049			-	
2050			-	
2051			-	
<b>TOTAL</b>			<b>\$440,093,198</b>	

<sup>(1)</sup> Excludes debt service on Bonds To Be Refunded. Assumes that approximately \$29,840,000 in aggregate principal amount of the Securities relating to the Series 2010B Bonds will bear interest at 4.075% per annum, which is the current fixed rate payable by the Health System pursuant to an interest rate swap transaction entered into by the Health System. The actual rate of interest on the Securities may vary from the assumed rate or from the floating rate payable to the Health System under the swap transaction, and such variances may be substantial. Also assumes that all Series 2010B Bonds that are tendered for purchase are successfully remarketed.

<sup>(2)</sup> Includes all Securities outstanding under the Master Indenture, but excludes (a) Securities relating to interest rate swaps for which no funds are owed and (b) certain notes and capitalized and operating leases that are not Securities. See APPENDIX B – “Note 10 – Long-Term Debt.”

## THE SERIES 2020 BONDS

### Description of the Series 2020 Bonds

The Series 2020 Bonds will mature on December 1 of the years and in the aggregate principal amounts and bear interest at the per annum interest rates set forth on the cover page of this Official Statement. The Series 2020 Bonds will be issued as fully registered bonds in denominations of \$5,000 and any integral multiple thereof (“*Authorized Denominations*”). Each Series 2020 Bond will be dated and will bear interest from its date of issuance, payable semiannually on June 1 and December 1 of each year, commencing June 1, 2020. Interest on the Series 2020 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months.

The Series 2020 Bonds will be subject to redemption prior to maturity as set forth below.

Initially, ownership interest in the Series 2020 Bonds may be acquired only in book-entry form. Purchasers of the Series 2020 Bonds will not receive certificates representing their interest in the Series 2020 Bonds and payments of principal of, premium, if any, and interest on the Series 2020 Bonds will be made to The Depository Trust Company, New York, New York, which will serve as securities depository for the Series 2020 Bonds. See “BOOK-ENTRY SYSTEM” herein for a description of The Depository Trust Company’s current practices regarding payment of principal of, premium, if any, and interest on the Series 2020 Bonds. In the event of discontinuation of the book-entry-only system, physical certificates will be delivered to beneficial owners of the Series 2020 Bonds and payments, notices and registration and transfer of the Series 2020 Bonds will be handled as provided in the Trust Indenture.

### Redemption Provisions\*

***Optional Redemption.*** The Series 2020 Bonds are subject to optional redemption prior to maturity by the Issuer, at the direction of the Medical Center without action by the Issuer, in whole or in part in Authorized Denominations, on or after December 1, 20\_\_, at a redemption price equal to 100% of the principal amount thereof to be redeemed, plus accrued and unpaid interest to the redemption date. The Medical Center may designate the aggregate principal amount, if any, of the Series 2020 Bonds of each stated maturity to be redeemed.

***Extraordinary Optional Redemption.*** The Series 2020 Bonds are subject to optional redemption prior to stated maturity by the Issuer, upon the request of the Medical Center without action by the Issuer, in whole or in part on any date at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest to the redemption date, within 365 days following the date on which any property of the Obligated Group Members has been damaged, destroyed or condemned (or sold under the threat of condemnation) to such an extent that, as determined by the board of directors of the Medical Center (taking into account any business interruption insurance), the revenue-producing capability of the Obligated Group as a whole will be materially impaired for a period of not less than six consecutive months and, in the absence of the redemption of the Series 2020 Bonds, the interest of the holders of the Series 2020 Bonds would be materially adversely affected. The Series 2020 Bonds may also be redeemed on such condition at the option of the Medical Center within 60 days following the receipt of any proceeds relating to such event if later than 365 days following the occurrence of such event.

***Mandatory Sinking Fund Redemption.*** The Series 2020 Bonds are subject to mandatory sinking fund redemption on December 1 in the years and in the aggregate principal amounts set forth below at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued and unpaid interest to the redemption date.

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\* Preliminary, subject to change.

**Series 2020 Bonds Maturing December 1, 2045\***

<u>Redemption Date</u> <u>(December1)</u>	<u>Principal Amount</u> \$
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† Maturity.

**Series 2020 Bonds Maturing December 1, 2050\***

<u>Redemption Date</u> <u>(December1)</u>	<u>Principal Amount</u> \$
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† Maturity.

The principal amount of the Series 2020 Bonds required to be redeemed on each date set forth above will be reduced by the principal amount of the Series 2020 Bonds specified by the Medical Center at least 45 days prior to the redemption date that have been either (a) purchased by or on behalf of the Medical Center and delivered to the Bond Trustee for cancellation or (b) redeemed other than through the operation of the mandatory sinking fund provisions described above and that, in either case, have not been previously made the basis for a reduction of the principal amount of the Series 2020 Bonds to be redeemed on a sinking fund redemption date.

***Purchase in Lieu of Redemption.*** If any Series 2020 Bond is called for optional redemption or extraordinary optional redemption in whole or in part, the Medical Center may elect to have such Series 2020 Bond purchased in lieu of redemption, *provided, however*, that no such purchase may be made unless the Medical Center has obtained an opinion of Bond Counsel to the effect that the purchase will not adversely affect the exclusion of interest on the Series 2020 Bonds from the gross income of the holders thereof for federal income tax purposes. The purchase price of the Series 2020 Bonds is required to be equal to the redemption price that would have been payable on such Series 2020 Bonds on the scheduled redemption date. No notice of purchase in lieu of redemption is required to be given to holders of Series 2020 Bonds other than the notice of redemption otherwise required.

***Redemption Procedures.*** If less than all the Series 2020 Bonds are to be redeemed in connection with an extraordinary optional redemption, the Series 2020 Bonds to be redeemed shall be selected by lot. If less than all the Series 2020 Bonds of a maturity (as determined by the Medical Center) are to be redeemed other than pursuant to an extraordinary optional redemption, the particular Series 2020 Bonds

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\* Preliminary, subject to change.

to be redeemed shall be selected prior to the redemption date by the Bond Trustee, from the outstanding Series 2020 Bonds (or, if pursuant to mandatory sinking fund redemption, from all Series 2020 Bonds not yet due) or such maturity not previously called for redemption, by such method (including by lot) as the Bond Trustee in its sole discretion shall deem fair and appropriate and that may provide for the selection for redemption of portions (equal to an Authorized Denomination) of the principal of Series 2020 Bonds of a denomination larger than the minimum Authorized Denomination.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed to DTC not less than 20 nor more than 60 days prior to the redemption date, to each holder of Series 2020 Bonds to be redeemed. The Medical Center may condition any election to redeem Series 2020 Bonds upon any condition. To the extent that any condition specified in the notice of redemption does not occur, the Medical Center may direct the Bond Trustee to rescind the notice. Upon receipt of such direction by the Medical Center, the Bond Trustee shall notify the holders of the Series 2020 Bonds that such redemption notice has been rescinded.

After having given notice as described above, the Series 2020 Bonds to be redeemed will (subject to the Medical Center's option to purchase the Series 2020 Bonds and right to rescind any redemption notice) become due and payable on the redemption date at the redemption price and from and after such date (unless the Medical Center is in default of the redemption price) such Series 2020 Bonds will cease to bear interest.

On or prior to any redemption date, the Medical Center must deposit with the Bond Trustee or with a paying agent an amount of money sufficient to pay the redemption price of all the Series 2020 Bonds that are to be redeemed on such date.

## **BOOK-ENTRY SYSTEM**

*The information in this section concerning DTC and the Book-Entry 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 Issuer, the Underwriters, the Bond Trustee or Cook Children's.*

### **Series 2020 Bonds in Book-Entry Form**

Beneficial ownership in the Series 2020 Bonds will be available to Beneficial Owners (as described below) only by or through DTC Participants via a book-entry system (the "*Book-Entry System*") maintained by DTC.

### **DTC and Its Participants**

DTC will act as securities depository for the Series 2020 Bonds. The Series 2020 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 certificate will be issued for the Series 2020 Bonds of each stated maturity, in the aggregate principal amount of the Series 2020 Bonds of such stated maturity and bearing interest at the same rate, 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, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges

between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has a Standard & Poor's rating of AA+. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2020 Bonds under the Book-Entry System must be made by or through Direct Participants, which will receive a credit for the Series 2020 Bonds on DTC's records. The ownership interest of each actual purchaser of a Series 2020 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 Series 2020 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2020 Bonds, except in the event that use of the Book-Entry System for the Series 2020 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2020 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 Series 2020 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 Series 2020 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2020 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 Series 2020 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2020 Bonds, such as redemptions, tenders, defaults, and proposed amendments to security documents. For example, Beneficial Owners of the Series 2020 Bonds may wish to ascertain that the nominee holding the Series 2020 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2020 Bonds of any stated maturity and bearing interest at the same rate are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2020 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2020 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee 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 Series 2020 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 Series 2020 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 Issuer or the Bond Trustee 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 Series 2020 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Issuer or Cook Children's, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest and redemption or purchase proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

### **Discontinuance of DTC Services**

DTC may discontinue providing its services as securities depository with respect to Series 2020 Bonds at any time by giving reasonable notice to the Issuer and the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2020 Bond certificates are required to be printed and delivered.

The Issuer, upon the request of the Medical Center, may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2020 Bond certificates will be printed and delivered to DTC.

### ***Use of Certain Terms in Other Sections of this Official Statement***

While the Series 2020 Bonds are in the Book-Entry System, reference in other sections of this Official Statement to owners of such Series 2020 Bonds should be read to include any person for whom a Participant acquires an interest in the Series 2020 Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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

## **SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020 BONDS**

### **Sources of Payment for the Series 2020 Bonds**

The Series 2020 Bonds are limited obligations of the Issuer. Principal of and interest on the Series 2020 Bonds are payable by the Issuer solely out of the revenues derived from or in connection with the Loan Agreement, the Series 2020 Note (including payments made by the Obligated Group Members in accordance with their joint and several agreement under the Master Indenture to pay the Series 2020 Note), and the Trust Indenture, including all sums deposited pursuant to the Loan Agreement and the Trust Indenture in the funds, other than the Rebate Fund, established under the Trust Indenture.

Pursuant to the Loan Agreement, the Issuer will loan to the Medical Center the proceeds from the sale of the Series 2020 Bonds issued under the Trust Indenture, and the Medical Center is required to



make loan payments sufficient to provide funds to make required payments of principal of (and premium, if any) and interest on the Series 2020 Bonds. Such loans are not permitted to be prepaid except in connection with the redemption or defeasance of the same amount of the Series 2020 Bonds. All such loan payments are required to be made directly to the Bond Trustee for the account of the Issuer, and the Trust Indenture requires that such loan payments be deposited directly to the Debt Service Fund.

**NEITHER THE STATE OF TEXAS NOR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE OF TEXAS, INCLUDING TARRANT COUNTY, TEXAS, IS OBLIGATED TO PAY THE PRINCIPAL OF, OR THE INTEREST, OR ANY REDEMPTION PREMIUM ON THE SERIES 2020 BONDS. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, TARRANT COUNTY, TEXAS, OR ANY OTHER POLITICAL SUBDIVISION OR AGENCY OF THE STATE OF TEXAS IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR INTEREST OR ANY REDEMPTION PREMIUM ON, THE SERIES 2020 BONDS. THE ISSUER HAS NO TAXING POWER.**

### **Security for the Series 2020 Bonds**

The Series 2020 Bonds are secured by the Trust Indenture. Under the Trust Indenture, the Issuer has granted a security interest in and has pledged to the Bond Trustee, for the equal and ratable benefit of the owners of the outstanding Series 2020 Bonds, all of the Issuer's right, title, and interest in (1) the Loan Agreement, including the loan payments, the Series 2020 Note, and the right to bring actions and proceedings under the Loan Agreement or on the Series 2020 Note, but excluding certain indemnity and reimbursement rights, (2) all money and investments held for the credit of the funds established by or under the Trust Indenture held by the Bond Trustee (other than the Rebate Fund), and (3) any and all property deposited with the Bond Trustee as additional security for the Series 2020 Bonds.

### **The Master Indenture**

**Concurrent with the issuance of the Series 2020 Bonds, Cook Children's intends to amend and restate the existing master indenture with the Master Indenture. A summary of the Master Indenture is attached hereto as APPENDIX C – "SUMMARY OF MASTER INDENTURE, TRUST INDENTURE AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS – THE MASTER INDENTURE." By the purchase of the Series 2020 Bonds their date of issuance, each holder of such Series 2020 Bonds will be deemed to have consented to the terms of the Master Indenture and the amendment and restatement of the existing master indenture in its entirety including consent to the amendment of the Master Indenture by the First Supplement (as defined below).**

*General.* The Master Indenture authorizes the issuance of the Series 2020 Note and other Securities to be issued thereunder from time to time. Including the Series 2020 Note, approximately \$441,405,000\* principal amount of Securities will be outstanding under the Master Indenture after the issuance and application of the proceeds of the Series 2020 Bonds, excluding Securities relating to interest rate swaps for which no funds are owed. See "PRO FORMA ANNUAL DEBT SERVICE REQUIREMENTS" herein. The Master Indenture provides for the payment of Securities by (1) committing the Obligated Group to the full and timely payment of the Securities, (2) imposing certain restrictions and obligations on the Obligated Group in their operations and financial affairs and (3) authorizing the Master Trustee to declare defaults, accelerate the maturity of Securities and exercise other remedies. The Master Indenture provides limited assurance of the payment of Securities. See "BONDHOLDERS' RISKS" and "REGULATION OF THE HEALTH CARE INDUSTRY" in PART II of this Official Statement. The duties and responsibilities of the Master Trustee to act under the Master Indenture are limited. See "THE MASTER INDENTURE – Concerning the Trustee" in APPENDIX C.

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\*Preliminary, subject to change.

The Master Indenture does not grant any security interest in the Obligated Group Members' revenues or in any other property of the Obligated Group Members.

***Obligated Group.*** The Medical Center, the Health System, the Physician Network and the Foundation are the only members of the Obligated Group. Additional entities may be designated as "Obligated Group Members," and certain Obligated Group Members may be released from their obligations as "Obligated Group Members" under the Master Indenture from time to time as described in APPENDIX C under "THE MASTER INDENTURE – Membership in the Obligated Group." The Medical Center must remain a member of the Obligated Group at all times pursuant to the Master Indenture. Obligated Group Members must assume the obligations of the Master Indenture, including the obligation to pay all Securities jointly and severally with the maker of the Securities.

***Issuance of Securities.*** Certain obligations of the Medical Center and the other Obligated Group Members may be made Securities under the Master Indenture at the request of an Obligated Group Member. Neither the number nor the principal amount of obligations that may become Securities under the Master Indenture is limited. The Obligated Group Members and their affiliates may also incur debt and other obligations that are not secured under the Master Indenture.

***Covenants.*** The Master Indenture contains covenants of the Medical Center and the other Obligated Group Members, including, without limitation, covenants controlling membership in the Obligated Group, the maintenance of corporate existence and minimum amounts of insurance, revenues, the disposition of assets, the incurrence of debt and the granting of security interests. See "THE MASTER INDENTURE – Covenants of the Obligated Group" and "– Consolidation, Merger, Conveyance and Transfer" in APPENDIX C. The covenants permit liens and transfers of assets between members of the Combined Group without limitation and the incurrence of additional indebtedness between members of the Obligated Group without limitation.

***Amendments to Master Indenture.*** The Master Indenture may be amended as described in "THE MASTER INDENTURE – Supplements" in APPENDIX C hereto. In connection with the issuance of the Series 2020 Bonds, Cook Children's has approved certain amendments to the Master Indenture contained in a First Supplement to Second Amended and Restated Master Indenture of Trust and Security Agreement (the "*First Supplement*"), which will be effective on the date that Cook Children's receives the consent of a majority in aggregate principal amount of the then outstanding Securities. See "SUMMARY OF THE SPRINGING AMENDMENTS" in APPENDIX C hereto. **By the purchase of the Series 2020 Bonds on their date of issuance, each holder of the Series 2020 Bonds will be deemed to have consented to the amendments to the Master Indenture contained in the First Supplement.**

The deemed consent of the holders of the Series 2020 Bonds will represent approximately 44%\* of the holders of outstanding Securities after giving effect to the issuance of the Series 2020 bonds and the refunding of the Bonds To Be Refunded. The Foundation will certify to the Master Trustee as to the effective date of the First Supplement, which may occur at any point without the further consent of the holders of the Series 2020 Bonds.

***By their purchase of the Series 2020 Bonds, the original purchasers and all subsequent holders thereof (i) consent, and shall be deemed to have consented, to the amendment of the Master Indenture, in the form of the First Supplement, (ii) direct the Bond Trustee (as holder of the Series 2020 Note) to consent to the amendment of the Master Indenture by the First Supplement, and (iii) waive, and shall be deemed to have waived, and consented to the waiver by the Bond Trustee (as holder of the Series 2020 Note) of, any and all other formal notice, implementation, execution or timing requirements that may otherwise be required under the Master Indenture in order to implement the amendment thereof by the First Supplement.***

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\* Preliminary, subject to change.

## **BONDHOLDERS' RISKS**

*There are risks associated with the purchase of the Series 2020 Bonds. Some of the identifiable risks that should be considered when making an investment decision are discussed in PART II – “BONDHOLDERS' RISKS” herein. That discussion should be read in conjunction with APPENDIX A and the discussion set forth in PART II – “REGULATION OF THE HEALTH CARE INDUSTRY.”*

### **REGULATION OF THE HEALTH CARE INDUSTRY**

The Obligated Group Members are, and the health care industry in general is, subject to regulation by a number of governmental agencies, including those which administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health planning programs and other federal, state and local governmental agencies. The health care industry is also affected by federal, state and local policies developed to regulate the manner in which health care is provided, administered and paid for nationally and locally. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. See PART II – “REGULATION OF THE HEALTH CARE INDUSTRY” for a discussion of such regulations, programs and policies.

## **LITIGATION**

### **The Issuer**

There is not now pending or, to the knowledge of the Issuer, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2020 Bonds or questioning or affecting the validity of the Series 2020 Bonds or the proceedings or authority under which such Series 2020 Bonds are to be issued. Neither the creation, organization or existence of the Issuer nor the title of any of the present directors or officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to the knowledge of the Issuer, threatened, which in any manner questions the right of the Issuer to enter into the Trust Indenture or Loan Agreement or to secure the Series 2020 Bonds in the manner provided in the Trust Indenture.

### **The Obligated Group**

The Obligated Group Members have advised that there is no litigation or proceeding pending or threatened against them except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of management of the Obligated Group Members, (i) will be entirely within applicable commercial insurance policy limits (including insurance provided by a captive affiliate and subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs or (ii) cannot be reasonably expected to have a material adverse effect on the operation or financial condition of the Cook Children's taken as a whole. No litigation or proceeding is pending or, to the knowledge of the members of the Obligated Group, threatened against them which in any manner questions the right of any Obligated Group Member to enter into the transactions described herein.

## **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Series 2020 Bonds are subject to the approval of the Attorney General of the State of Texas and the legal opinion of Bracewell LLP, Bond Counsel. Bracewell LLP has acted in the capacity as Bond Counsel for the purpose of rendering an opinion with respect to the authorization, issuance, delivery, legality and validity of the Series 2020

Bonds and for the purpose of rendering an opinion on the exclusion of the interest on the Series 2020 Bonds from gross income for federal income tax purposes and certain tax matters. Such firm has not been requested to examine, and has not investigated or verified, any statements, records, material or matters relating to the financial condition or capabilities of the Medical Center or its affiliates, and has not assumed responsibility for the preparation of this Official Statement, except that, in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement under the captions “INTRODUCTORY STATEMENT,” “THE ISSUER,” “THE SERIES 2020 BONDS,” “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020 BONDS,” “TAX MATTERS” and “CONTINUING DISCLOSURE” and in APPENDIX C.

Certain legal matters will be passed upon by Norton Rose Fulbright US LLP, as counsel for Cook Children’s, and by Brown Pruitt Wambsganss Dean Forman & Moore, P.C., as counsel to the Issuer. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **TAX MATTERS**

**THE FOLLOWING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SERIES 2020 BONDS.**

### **Tax Exemption**

In the opinion of Bracewell LLP, Bond Counsel, assuming compliance with certain covenants and based on certain representations, under existing law (i) interest on the Series 2020 Bonds is excludable from gross income for federal income tax purposes, and (ii) the Series 2020 Bonds are “qualified 501(c)(3) bonds” under the Code, and, as such, interest on the Series 2020 Bonds is not subject to the alternative minimum tax imposed on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2020 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Medical Center be a tax-exempt organization described in Section 501(c)(3) of the Code, limitations on the use of proceeds and the source of repayment of bonds of the same issue, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of such proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the Internal Revenue Service (the “IRS”). The Issuer and the Medical Center have covenanted in the Trust Indenture and the Loan Agreement that they will comply with these requirements.

For purposes of its opinion that the Series 2020 Bonds are “qualified 501(c)(3) bonds,” Bond Counsel will assume continuing compliance with the covenants of the Trust Indenture and the Loan Agreement pertaining to those sections of the Code that affect the status of the Medical Center and certain affiliates as organizations described in Section 501(c)(3) of the Code and the excludability from gross income of interest on the Series 2020 Bonds for federal income tax purposes. In addition, Bond Counsel

will rely on representations by the Issuer, the Medical Center, the Underwriters, and the Financial Advisor with respect to matters solely within the knowledge of the Issuer, the Medical Center, the Underwriters, and the Financial Advisor, respectively, which Bond Counsel has not independently verified, and the opinion of Norton Rose Fulbright US LLP, of even date with Bond Counsel's opinion, to the effect that the Obligated Group Members are organizations described in Section 501(c)(3) of the Code. If the Issuer or the Medical Center should fail to comply with the covenants in the Trust Indenture and the Loan Agreement or if such representations should be determined to be inaccurate or incomplete, interest on the Series 2020 Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2020 Bonds, regardless of the date on which the event causing such includability occurs.

Except as stated above, Bond Counsel will 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 Series 2020 Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the IRS; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. Bond Counsel observes that the Medical Center has covenanted in the Loan Agreement not to take any action, or omit to take any action within their control, that if taken or omitted, respectively, will result in treatment of interest on the Series 2020 Bonds as includable in gross income for federal income tax purposes. The IRS 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 regarding whether or not the IRS will commence an audit of the Series 2020 Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the owners of the Series 2020 Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Series 2020 Bonds could adversely affect the value and liquidity of the Series 2020 Bonds regardless of the ultimate outcome of the audit.

### **Collateral Tax Consequences**

Prospective purchasers of the Series 2020 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal 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, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits, including tax-exempt interest such as interest on the Series 2020 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2020 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2020 Bonds, received or accrued during the year.

## **Tax Accounting Treatment of Original Issue Premium**

The issue price of all or a portion of the Series 2020 Bonds may exceed the stated redemption price payable at maturity of such Series 2020 Bonds. Such Series 2020 Bonds (the “*Premium Bonds*”) will be considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

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

## **Tax Accounting Treatment of Original Issue Discount**

The issue price of all or a portion of the Series 2020 Bonds may be less than the stated redemption price payable at maturity of such Series 2020 Bonds (the “*Original Issue Discount Bonds*”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Original Issue Discount Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bonds equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Series 2020 Bonds under the captions “TAX MATTERS – Tax Exemption,” “– Collateral Tax Consequences” and “– Tax Legislative Changes” generally apply, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriters have purchased the Series 2020 Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer, the Medical Center, nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semi-annual anniversary dates of the date of the Series 2020 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

### **Tax Legislative Changes**

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Series 2020 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2020 Bonds. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors with respect to any proposed, pending or future legislation.

## **FINANCIAL STATEMENTS**

The consolidated financial statements of W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries as of September 30, 2019 and 2018 and for the years then ended, included in this offering document as APPENDIX B, have been audited by BKD, LLP, independent auditors, as stated in their report appearing in APPENDIX B.

## **UNDERWRITING**

J.P. Morgan Securities LLC, Goldman Sachs & Co. LLC, and Raymond James & Associates, Inc. (collectively, the "*Underwriters*") have agreed, jointly and severally, to purchase the Series 2020 Bonds at a purchase price of \$\_\_\_\_\_, consisting of the \$\_\_\_\_\_ aggregate par amount of the Series 2020 Bonds, less an underwriting discount of \$\_\_\_\_\_, [plus/less] a [net] original issue [premium/discount] of \$\_\_\_\_\_, subject to certain conditions pursuant to a contract of purchase (the "*Contract of Purchase*") between the Issuer and the Underwriters. The Contract of Purchase provides that the Underwriters will purchase all of the Series 2020 Bonds if any are purchased. The Medical Center has agreed to indemnify the Underwriters and the Issuer against certain liabilities, including certain liabilities arising under federal and state securities laws.

The Underwriters may offer and sell Series 2020 Bonds to certain dealers (including dealers depositing Series 2020 Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2020 Bonds, has entered into negotiated dealer agreements (each, a “*Dealer Agreement*”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2020 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2020 Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various advisory and investment banking services for Cook Children’s for which they received or will receive customary fees and expenses. J.P. Morgan Securities LLC currently acts as remarketing agent for the Series 2010B Bonds.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of Cook Children’s (directly, as collateral security other obligations or otherwise) and/or persons and entities with relationships with Cook Children’s. 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.

#### **FINANCIAL ADVISOR**

Hilltop Securities Inc. (the “*Financial Advisor*”) is employed as Financial Advisor to Cook Children’s in connection with the issuance of the Series 2020 Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2020 Bonds is contingent upon the issuance and delivery of the Series 2020 Bonds. Hilltop Securities Inc., does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2020 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to Cook Children’s 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 Cook Children’s 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.*

#### **RATINGS**

Moody’s Investors Service, Inc. (“*Moody’s*”) has assigned a rating of “Aa2 (stable)” to the Series 2020 Bonds and S&P Global Ratings (“*S&P*”), has assigned a rating of “AA (stable)” to the Series 2020 Bonds. The ratings and an explanation of their significance may be obtained from the rating agencies furnishing such ratings. Such ratings reflect only the respective views of the rating agencies and are not a recommendation to buy, sell or hold the Series 2020 Bonds.



Cook Children's furnished such rating agencies with certain information and materials relating to the Series 2020 Bonds and Cook Children's that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Except as described under the caption "CONTINUING DISCLOSURE" herein, none of the Issuer, the Underwriters, or Cook Children's has undertaken any responsibility to bring to the attention of the registered owners of the Series 2020 Bonds any proposed revision or withdrawal of the ratings of the Series 2020 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price or marketability of the Series 2020 Bonds.

### **CONTINUING DISCLOSURE**

The Medical Center has agreed to provide certain updated financial information and operating data annually, unaudited financial information quarterly and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information will be available from the MSRB. The specific nature of the information to be contained in the Annual Financial Information, the Quarterly Financial Information or the notices of enumerated events is set forth in the Continuing Disclosure Undertaking, the form of which is attached hereto as APPENDIX E.

The Medical Center is obligated to provide certain updated financial information and operating data with respect to itself and its affiliates to the MSRB annually. The Medical Center will provide such information by the 15th day of the fifth month after the end of each fiscal year.

Within 60 days after the end of each of the first three fiscal quarters of the Medical Center, beginning with the fiscal quarter ending March 31, 2020, the Medical Center will provide to the MSRB an unaudited consolidated statement of financial position and statement of operations with respect to the Obligated Group and its affiliates as of the end of such fiscal quarter and for the fiscal year to date, shown in each case in comparative form.

Failure to comply with the Medical Center's disclosure agreement does not constitute an Event of Default under the Trust Indenture or the Master Indenture.

Within the last five years, the Medical Center, on behalf of the Obligated Group, failed to include in its annual financial information (i) for fiscal year 2018, information relating to the Medical Center's net patient service revenue payor mix and (ii) for fiscal years 2014 through 2018, information relating to the Physician Network's patient encounters by specialty, each as required by previous continuing disclosure undertakings. The Medical Center filed certain missing information as part of its annual financial information as well as a notice of failure to file continuing disclosure requirements relating to the missing information described above on the MSRB's Electronic Municipal Market Access website ("EMMA") at <http://emma.msrb.org> on January 30, 2020.

### **MISCELLANEOUS**

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any forecast will approximate actual results and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

This distribution of this Official Statement has been approved by the Medical Center. The Issuer is not responsible for any information set forth herein except that contained under the captions "THE ISSUER" and "LITIGATION – The Issuer."

The references herein and in APPENDIX C to the Master Indenture, the First Supplement, the Trust Indenture and the Loan Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of the provisions thereof, reference is made to the Master Indenture, the First Supplement, the Trust Indenture and the Loan Agreement. Copies of the drafts of the Master Indenture, the First Supplement, the Trust Indenture and the Loan Agreement are on file at the offices of the Underwriters and following delivery of the Series 2020 Bonds copies of such documents will be on file at the office of the Bond Trustee.

Neither any advertisement of the Series 2020 Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2020 Bonds. So far as any statements are made in the Official Statement involving estimates, projections or matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

CUSIP identification numbers will be printed on the Series 2020 Bonds, but no error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2020 Bonds.

Appendices A, B, C, D and E are integral parts of this Official Statement and should be read together with all of the foregoing statements.

The Health System has reviewed the information contained herein which relates to Cook Children's, its property and operations, and has authorized all such information for use in this Official Statement and has approved this Official Statement.

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**PART II**  
**BONDHOLDERS' RISKS**  
**AND**  
**REGULATION OF THE HEALTH CARE INDUSTRY**

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## **BONDHOLDERS' RISKS**

*Some of the identifiable risks which should be considered when making an investment decision regarding the Series 2020 Bonds are discussed below. The discussion herein of risks to the Owners (including the Beneficial Owners, as defined in the forepart of this Official Statement under the heading "BOOK-ENTRY SYSTEM") of the Series 2020 Bonds is not intended as dispositive, comprehensive or definitive, but rather is intended to summarize certain matters which could affect payment on the Series 2020 Bonds. The risks discussed below should be read in conjunction with APPENDIX A and the discussion set forth under the caption "REGULATION OF THE HEALTH CARE INDUSTRY" below. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the designated corporate trust office of the Bond Trustee. The operations and financial condition of the Obligated Group Members may be affected by factors other than those described in this section and "REGULATION OF THE HEALTH CARE INDUSTRY" below and elsewhere in this Official Statement. No assurance can be given as to the nature of such factors or the potential effects thereof on the Obligated Group Members. Initially capitalized terms not otherwise defined in this PART II have the meanings assigned such terms in PART I of this Official Statement.*

### **General**

As set forth under the heading "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020 BONDS," the Series 2020 Bonds will constitute general obligations of the Obligated Group Members secured under the Trust Indenture by (i) the Series 2020 Note; and (ii) the money and securities held by the Bond Trustee in certain of the funds under the Trust Indenture. The revenues and expenses of the Obligated Group are subject to, among other things, the capabilities of its management, the confidence of physicians in management, the availability of physicians and trained support staff, changes in the population or the economic condition of the Obligated Group's service areas, the level of and restrictions on federal and state funding of Medicaid, and to a lesser extent, on federal funding of Medicare, the imposition of government wage and price controls, the demand for the Obligated Group Members' services, increased competition, reduced third-party reimbursement rates or delays in payment, government regulations and licensing requirements, continued federal and state funding, future economic conditions and other conditions which are unpredictable and may not be quantifiable or determinable at this time. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group in amounts sufficient to pay debt service on the Series 2020 Bonds and the Series 2020 Note when due and to make payments necessary to meet the other obligations of the Obligated Group.

The discussion herein describes risks related to certain existing federal and state laws, regulations, rules and governmental administrative policies and determinations to which the Obligated Group Members and the health care industry are subject. Several of the federal statutes and regulations described herein may be substantially modified or repealed in whole or in part. Key elements of the legislative agenda of President Trump's administration include the repeal or replacement of the Patient Protection and Affordable Care Act, as subsequently amended by the Health Care and Education Reconciliation Act of 2010 (collectively referred to herein as the "ACA" and described under the heading "REGULATION OF THE HEALTH CARE INDUSTRY"), tax reform and financial services reform. As defined and described under the subheading "Tax Reform" below, tax reform legislation known as the Tax Cuts and Jobs Act (the "*Tax Cuts and Jobs Act*") was signed into law in late 2017. While attempts to repeal the entirety of the ACA have not been successful to date, a key provision of the ACA was effectively repealed as part of the Tax Cuts and Jobs Act, and on December 14, 2018, a federal U.S. District Court judge in Texas ruled the entire ACA is unconstitutional. On December 18, 2019, the Fifth Circuit Court of Appeals affirmed the judgment, in part, and vacated the judgment in part, remanding the case to the District Court to further examine the

question of severability and to provide additional analysis of the provisions of the ACA as they currently exist. The Court of Appeals ruling has caused greater uncertainty regarding the future status of the ACA. Also, additional legislative attempts to repeal or piecemeal dismantle the ACA may be introduced in the future. The scope and effect of future legislation or judicial action cannot be predicted and such future legislation or judicial action could have a material adverse impact on the financial condition or operations of the Obligated Group Members. In addition to statutory changes or judicial action, regulatory changes and executive actions implemented by the Trump administration could have a material adverse impact on the financial condition or operations of the Obligated Group Members. Accordingly, it is possible that the significant risk areas summarized under this caption “BONDHOLDERS’ RISKS” will undergo significant change in the near term.

**ADVERSE CONSEQUENCES ARISING FROM ONE OR MORE OF THE FOLLOWING RISKS, OR THE OCCURRENCE OF OTHER UNANTICIPATED EVENTS, COULD ADVERSELY AFFECT THE OPERATIONS OR FINANCIAL PERFORMANCE OF THE OBLIGATED GROUP MEMBERS. THIS DISCUSSION IS NOT, AND IS NOT INTENDED TO BE, EXHAUSTIVE. THE RISKS DISCUSSED BELOW SHOULD BE READ IN CONJUNCTION WITH THE DISCUSSION SET FORTH IN APPENDIX A AND THE DISCUSSION APPEARING UNDER THE CAPTION “REGULATION OF THE HEALTH CARE INDUSTRY” BELOW AND THE INFORMATION APPEARING ELSEWHERE IN THIS OFFERING DOCUMENT.**

### **Nonprofit Health Care Environment**

Each Obligated Group Member is a nonprofit corporation and each is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). As nonprofit tax-exempt organizations, the Obligated Group Members are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operations for charitable purposes. At the same time, the Obligated Group Members conduct large-scale complex business transactions and are large employers. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex, large health care organization. Hospitals or other health care providers, such as the Obligated Group Members, may be forced to forego otherwise favorable opportunities for certain joint ventures, recruitment and other arrangements in order to maintain their tax-exempt status.

The operations and practices of nonprofit, tax-exempt health care providers are routinely challenged or criticized for inconsistency or inadequate compliance with regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges in some cases are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead are examinations of core business practices of the health care organizations. A common theme of these challenges is that nonprofit hospitals may not confer community benefits that exceed or equal the benefit received from their tax-exempt status. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation.

The following are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for health care organizations, including the Obligated Group. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on Obligated Group Members.

### *Congressional Hearings and Investigations*

A number of House and Senate Committees, including the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt health care organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. Additionally, Senate Finance Committee Chairman Chuck Grassley has recently renewed his scrutiny of tax-exempt hospitals, requesting in a February 2019 letter to the IRS that the agency provide data with respect to its examinations of non-profit hospital compliance with the Code's community benefit regulations. The effect of these hearings and investigations cannot be predicted, but may result in new legislation or regulatory action.

### *Bond Examinations*

The IRS has active programs auditing both the qualification of hospital organizations as organizations described under Section 501(c)(3) of the Code and the qualification of bonds issued for the benefit of such organizations as tax-exempt. The IRS may use detailed information required to be reported on IRS Form 990 - Return of Organizations Exempt From Income Tax ("*IRS Form 990*") for this purpose.

### *IRS Examination of Compensation Practices and Community Benefit*

For more than a decade, the IRS has been concerned about executive compensation practices of tax-exempt hospitals. In 2004, the IRS began a program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "*IRS Final Report*") that examined tax-exempt organizations' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicated that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures and (2) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The IRS Final Report determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, IRS Form 990 requires detailed disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be a compliance risk. IRS Form 990 also requires the disclosure of information on community benefit as well as reporting of information related to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. IRS Form 990 is intended to provide enhanced transparency as to the operations of exempt organizations. It is likely that the IRS will use detailed information from IRS Form 990 to assist in its enhanced enforcement efforts. See "Risks Related to Tax-Exempt Status of the Obligated Group Members – Maintenance of Tax-Exempt Status" below.

Schedule H of IRS Form 990, which hospitals and health systems must use to report their community benefit activities, has been revised to require details on how a hospital determines eligibility for free or discounted care (if the federal poverty guidelines are not used). Consistent with Section 501(r) of the Code, Schedule H now requires hospitals to describe billing and collection practices permitted under the hospital facility's policies, as well as information about the hospital's emergency medical care policy.

#### *Litigation Relating to Billing and Collection Practices*

Over the past several years, lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients, have overcharged uninsured patients, and have engaged in aggressive billing and collection practices. Other cases have alleged that charging patients more for services furnished in a hospital-based setting is a wrongful or deceptive practice. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into substantial settlements. A number of cases are still pending in various courts around the country with inconsistent results and others could be filed.

#### *Challenges to Real Property Tax Exemptions*

The real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices, excessive financial margins and operations that closely resemble for-profit businesses. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. In addition, some states have proposed overhauling their property tax exemption laws. While management is not aware of any current challenge to the tax exemption afforded to any material real property of the Obligated Group, there can be no assurance that these types of challenges will not occur in the future.

#### *Attorneys General and Other State Oversight or Audits*

Nonprofit corporations are subject to oversight and examination by their states' attorneys general to ensure their charitable purposes are being carried out, that their fundraising and investment activities comply with state law and that the terms of charitable gifts are followed. In addition, state legislatures may direct state executive bodies to monitor or audit levels of charity care being provided in nonprofit hospitals.

#### *Charity Care*

The legislatures of some states have attempted to pass legislation mandating charity care levels or imposing other requirements relating to charity care. From time to time, Congress proposes new laws and the IRS proposes new regulations concerning the manner in which charity care is calculated or issues guidance concerning the level of charity care expected of an organization exempt from tax under Section 501(c)(3) of the Code. Management cannot predict whether legislation, regulations, or guidance will be implemented in the future and cannot predict the effect it may have on the Obligated Group's financial condition, though such effect may be material.

### **Risks Related to Tax-Exempt Status of the Obligated Group Members**

#### *Maintenance of Tax-Exempt Status*

Loss of tax-exempt status by an Obligated Group Member could result in loss of tax exemption of interest on the Series 2020 Bonds (see "*Tax-Exempt Status of Interest on the Series 2020 Bonds*" below)



and/or other bonds issued to make loans to one or more Obligated Group Members and defaults in covenants regarding such bonds would likely result. Such an event would also have other material adverse consequences on the financial condition of the Obligated Group. Management is not aware of any transactions or activities currently ongoing that are likely to result in the revocation of the tax-exempt status of an Obligated Group Member.

The maintenance by an entity of its status as an organization described in Section 501(c)(3) of the Code is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their assets to inure to the benefit of private individuals.

The IRS has announced that it intends to closely scrutinize transactions between not-for-profit corporations and for-profit entities, and in particular has issued audit guidelines for tax-exempt hospitals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Obligated Group Members conduct large-scale and diverse operations involving private parties, there can be no assurances that certain of their transactions would not be challenged by the IRS. The Obligated Group Members participate in a variety of transactions and joint ventures with physicians either directly or indirectly. Management believes that the transactions and joint ventures to which Obligated Group Members are a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

The ACA also contains requirements for tax-exempt hospitals through Section 501(r) of the Code. Final regulations under Section 501(r) of the Code provide detailed guidance relating to requirements for community health needs assessments, financial assistance policies, emergency medical care policies, limitations on charges and billing and collection practices, and also provide guidance on consequences of failure to satisfy Section 501(r) requirements. These final regulations are complex and administratively burdensome. An organization's failure to meet one or more Section 501(r) requirements could endanger the organization's Section 501(c)(3) status as of the first day of the tax year in which a failure occurs. In addition, an organization may be subject to certain excise taxes if a hospital facility fails to maintain the requirements concerning community health needs assessments.

In certain cases, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt hospitals in lieu of revoking their tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations are typically imposed on the tax-exempt hospital pursuant to a "closing agreement" with respect to the hospital's alleged violation of Section 501(c)(3) exemption requirements. Given the uncertainty regarding how tax-exemption requirements may be applied by the IRS, the Obligated Group Members are, and will be, at risk for incurring monetary and other liabilities imposed by the IRS through this "closing agreement" or similar process.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. Certain audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and the audited organization. These audits examine a wide range of possible issues, including tax-exempt bond financings, partnerships

and joint ventures, unrelated business income tax, retirement plans and employee benefits, employment taxes, political contributions and other matters.

In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt organizations. If the IRS were to find that an Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by an Obligated Group Member potentially could result in loss of tax exemption of any tax-exempt debt of the Obligated Group, and defaults in covenants regarding such tax-exempt debt and other obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Obligated Group.

#### *State and Local Tax Exemption*

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. For example, a court in New Jersey decided that a nonprofit hospital should pay property taxes on almost all of its property because it did not meet the legal test that it operate as a nonprofit, charitable organization during certain years. The majority of the real property of the Obligated Group Members is currently treated as exempt from real property taxation. Although the real property tax exemptions of the Obligated Group Members with respect to core hospital facilities have not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemptions of Obligated Group Members.

Texas has not been as active as the IRS in scrutinizing the tax-exempt status of hospitals. It is possible that legislation may be proposed to strengthen the role of the Texas Attorney General in supervising nonprofit health systems. It is likely that the loss by the Medical Center or an affiliate of its federal tax exemption also would trigger a challenge to its state or local tax exemption. Depending on the circumstances, such event could be adverse and material. The majority of the real and personal property of the Obligated Group is currently exempt from property taxes. Investigations or audits could lead to challenges of the property tax exemption with respect to facilities that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities or property of the Obligated Group.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Obligated Group by requiring payment of income, local property or other taxes.

#### *Tax-Exempt Status of Interest on the Series 2020 Bonds*

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2020 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include a requirement that the Medical Center be a tax-exempt organization described in Section 501(c)(3) of the Code, limitations on the use of proceeds and the source of repayment of bonds of the same issue, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of such proceeds be paid periodically to the United States and a requirement that the Issuer file an information report with the IRS. The Issuer and the Medical Center have covenanted in the Trust Indenture and the Loan Agreement that they will comply with

these requirements. If the Issuer or the Medical Center should fail to comply with the covenants in the Trust Indenture and the Loan Agreement, interest on the Series 2020 Bonds could become includable in gross income for federal income tax purposes from the date of delivery of the Series 2020 Bonds, regardless of the date on which the event causing such includability occurs. In such event, the Trust Indenture neither contains any specific provision for mandatory acceleration of the Series 2020 Bonds nor provides that any additional interest will be paid to the holders of the Series 2020 Bonds. *See* APPENDIX C – “SUMMARY OF MASTER INDENTURE, TRUST INDENTURE AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS – THE TRUST INDENTURE – Remedies of the Trustee and Holders of Bonds in Event of Default.”

IRS officials have indicated that more resources will be invested in audits of tax-exempt obligations, including the use of tax-exempt obligation proceeds, in the charitable organization sector, with specific review of private use. In addition, the IRS has from time to time sent questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis, inquiring about post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their tax-exempt obligations. The questionnaire includes questions relating to the borrower’s (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education.

The IRS has also added schedules to IRS Form 990 that create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K requires detailed information related to all outstanding bond issues of tax-exempt borrowers, including information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations’ officers, directors, trustees, key employees, and other highly compensated employees. IRS reviews and audits could and may adversely affect the marketability of or the market value for the Series 2020 Bonds.

The opinions of Bond Counsel delivered on the date the Series 2020 Bonds are issued are not a guarantee of result and are not binding on the IRS; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon certain representations and covenants that it deems relevant to such opinions. The IRS has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations, such as the Series 2020 Bonds, is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the IRS will commence an audit of the Series 2020 Bonds. If an audit is commenced, in accordance with its current published procedures, the IRS is likely to treat the Issuer as the taxpayer and the owners of the Series 2020 Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Series 2020 Bonds could adversely affect the value and liquidity of the Series 2020 Bonds regardless of the ultimate outcome of the audit and may cause the Obligated Group and/or the holders of the Series 2020 Bonds to incur significant expense.

#### *Future Legislation Regarding Limitations or Elimination of Tax-Exempt Status*

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Series 2020 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2020 Bonds. Prospective purchasers of the Series 2020 Bonds should consult their own tax advisors with respect to any proposed, pending or future legislation.

### *Unrelated Business Income*

In recent years, the IRS and state, county and local tax authorities have audited the operations of tax-exempt hospitals and health care systems with respect to their exempt activities and the generation of unrelated business taxable income (“UBTI”). Most hospitals and health care systems participate in activities that may generate UBTI. An investigation or audit could result in assessment of taxes, interest and penalties with respect to unreported UBTI and in some cases ultimately could affect the tax-exempt status of such entity, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2020 Bonds or any tax-exempt debt of the Obligated Group.

### *Limitations on Contractual and Other Arrangements Imposed by the Code*

As tax-exempt organizations, the Obligated Group Members are limited with respect to the use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of the tax-exempt status of an Obligated Group Member or assessment of significant tax liability would have a materially adverse impact on the financial condition or operations of the Obligated Group Members and might lead to loss of tax exemption of interest on the Series 2020 Bonds.

### *Cost of Capital*

From time to time, Congress has considered and is considering revisions to the Code that may prevent or limit access to the tax-exempt debt market by borrowers such as the Obligated Group Members. Such legislation, if enacted into law, may have the effect of materially increasing the costs of capital to the Obligated Group. See “Tax Reform” below.

## **Security and Enforceability**

### *Enforceability of the Master Indenture and Series 2020 Note*

Each Obligated Group Member has covenanted in the Master Indenture to make payments when due on the Securities issued under the Master Indenture. Securities are joint and several obligations of each Obligated Group Member. The enforceability of the joint and several obligations of each Obligated Group Member is uncertain. As a consequence, the property of the Obligated Group Members that are not the beneficiaries of the proceeds of the Series 2020 Bonds may not be available to make such payments.

Special counsel to the Obligated Group will deliver an opinion concurrently with the delivery of the Series 2020 Bonds to the effect that the Master Indenture and the Series 2020 Note are enforceable in accordance with their terms. However, such opinion will be qualified as to the joint and several obligation of the Obligated Group Members to make payments of debt service on obligations. Such joint and several obligation may not be enforceable against an Obligated Group Member for a variety of reasons, including:

- To the extent payments are requested to be made from assets of such Obligated Group Member which are donor-restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments.

- If the purpose of the debt is not consistent with the charitable purposes of such Obligated Group Member, or if the debt was incurred by or issued for the benefit of an entity other than a nonprofit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a “private foundation” as defined in Section 509(a) of the Code.
- To the extent payments on the Series 2020 Note would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Obligated Group Member.
- If and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

If the obligation of a particular Obligated Group Member to make payment on a Security is not enforceable, and payment is not made on such Security when due in full, then an Event of Default will arise under the Master Indenture.

An Obligated Group Member may not be required to make payments on or provide amounts for the payment of an Obligation, including the Series 2020 Note, issued by or for the benefit of another entity if and to the extent that any such payment or transfer would render such Obligated Group Member insolvent or would conflict with or not be permitted by or would be subject to recovery for the benefit of other creditors of such Obligated Group Member under applicable fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors’ rights. There is no clear precedent in the law as to whether payments on Securities (including the Series 2020 Note) by an Obligated Group Member may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Obligated Group Member, or by third-party creditors in an action brought pursuant to state fraudulent conveyances statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent conveyance statutes, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or state fraudulent conveyances statutes, or the guarantor is undercapitalized. Under such principles, the obligation of an Obligated Group Member to make payments on Securities (including the Series 2020 Note) that secure debt (including the Series 2020 Bonds) not issued for the direct benefit of such Obligated Group Member may be considered a guaranty.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. If judicial action were brought to compel an Obligated Group Member to make a payment on an Obligation (including the Series 2020 Note), a court might not enforce such payment in the event it is determined that sufficient consideration for the Obligated Group Member’s obligation was not received, or that the incurrence of such obligation has rendered or will render the Obligated Group Member insolvent, or the Obligated Group Member is or will thereby become undercapitalized.

In addition, state courts have common law authority and authority under state statutes to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such action may arise on the court’s own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation would result in the cessation or discontinuation of any material portion of the health care or related service previously provided by the Obligated Group Member from which payment is requested.

#### *Unsecured Securities*

No revenues or any other property of the Obligated Group Members is pledged as security for the Series 2020 Bonds or the Series 2020 Note. In the event of a default and the exercise by the Bond Trustee or the Master Trustee of remedies available to it, the Bond Trustee or Master Trustee, as applicable, would be an unsecured creditor with no rights to any specific facilities of the Obligated Group Members.

The health care facilities of the Obligated Group Members are not general purpose buildings and may not be suitable for industrial or commercial use. Consequently, if an event of default were to occur and the Bond Trustee or the Master Trustee were in a position to sell or lease the facilities as a result of the exercise of available remedies, it could be difficult to find a buyer or lessee. As a result, the Bond Trustee or the Master Trustee may not obtain an amount sufficient to satisfy obligations on the Series 2020 Bonds or the Series 2020 Note, whether pursuant to a judgment against any Obligated Group Member or otherwise.

#### *Amendments to Master Indenture*

Certain amendments to the Master Indenture may be made without the consent of the owners of the Securities. Certain other amendments to the Master Indenture may be made with the consent of the owners of not less than a majority of the aggregate principal amount of the outstanding Securities. Amendments to the Master Indenture may be obtained with the consent of the owners of Securities other than the Series 2020 Note. The Bond Trustee is considered the holder of the Series 2020 Note. Certain amendments to the Trust Indenture and the Loan Agreement, or any of them, may be made with the consent of the owners of not less than a majority of the outstanding principal amount of the Series 2020 Bonds. Such amendments may adversely affect the security of owners of the Series 2020 Bonds.

#### *Enforceability of Remedies*

The remedies available to the Bond Trustee, the Master Trustee, and the beneficial owners of the Series 2020 Bonds upon an event of default under the Trust Indenture, the Loan Agreement and the Master Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, the United States Bankruptcy Code, the remedies provided in the Trust Indenture, the Loan Agreement and the Master Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2020 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors' generally and laws relating to fraudulent conveyances.

#### *Bankruptcy*

In the event an Obligated Group Member files for protection from creditors under the United States Bankruptcy Code, the rights and remedies of the Owners of the Series 2020 Bonds would be subject to various provisions of the United States Bankruptcy Code. If an Obligated Group Member were to commence a proceeding in bankruptcy, payments made by that Obligated Group Member during the 90-day period immediately preceding such commencement (or, under certain circumstances, during the preceding one-year period) may be voided as preferential transfers to the extent such payments allow the

recipients thereof to receive more than they would have received in the event of the liquidation of such Obligated Group Member. Security interests and other liens, if any, granted by such Obligated Group Member to the Bond Trustee or the Master Trustee and perfected during such preference period may also be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such grant or perfection.

A bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Obligated Group Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of such Obligated Group Member could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Bond Trustee or the Master Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

An Obligated Group Member could also file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. Any such plan could adversely affect the beneficial owners of the Series 2020 Bonds.

In the event of bankruptcy of an Obligated Group Member, there is no assurance that certain covenants, including tax covenants, contained in the Trust Indenture, the Loan Agreement or the Master Indenture and certain other documents would survive. Accordingly, such Obligated Group Member, as debtor in possession, or a bankruptcy trustee could take action which might adversely affect the exclusion of interest on the Series 2020 Bonds from gross income for federal income tax purposes.

There is no clear precedent in the law as to whether payments by the Obligated Group Members or any future Obligated Group Member on the Series 2020 Note issued by or for the benefit of another entity for such purposes may be voided by a trustee in bankruptcy in the event of a bankruptcy of the Obligated Group Members or any future Obligated Group Member or by third-party creditors in an action brought pursuant to fraudulent transfer statutes of the State of Texas. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under fraudulent conveyances statutes of the State of Texas, a creditor of a related guarantor may avoid any obligation incurred by a related guarantor, if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or fraudulent transfers statutes of the State of Texas, or the guarantor is undercapitalized.

Under the United States Bankruptcy Code, a bankruptcy court could appoint a patient advocate, the cost of which would be an administrative expense of the estate and certain reimbursements from federal agencies could be discontinued.

In addition, the bankruptcy of a health plan or physician group that is a party to a significant managed care arrangement with one or more Obligated Group Members, or that of any significant contract

payor obligated to any one or more Obligated Group Members, could have material adverse effects on the Obligated Group.

#### *Risks Related to Variable Rate Securities*

Certain outstanding Securities issued under the Master Indenture are variable interest rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because the related Obligated Group Member would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents. Previous credit market turmoil in the auction rate markets and dislocation among various bond insurers and swap providers previously triggered suddenly high interest costs to many health care organizations holding debt with interest rates that varied on a periodic basis.

The Medical Center is obligated on outstanding demand bonds that must be repurchased at any time on seven days' notice. Although it currently has sufficient liquid reserves to purchase tendered bonds, if the Medical Center's outstanding demand bonds cannot be remarketed when holders demand payment, the Medical Center could be forced to liquidate investments or apply cash to purchase the bonds, thus reducing its liquid assets available to pay the Series 2020 Bonds and continue its revenue producing operations. See "FINANCIAL INFORMATION – Cash and Investments" and "– Capitalization of the Obligated Group" in APPENDIX A.

#### *Risks Associated with LIBOR-Based Securities*

Certain outstanding indebtedness and interest rate swap transactions of the Obligated Group bear interest at rates that are determined using, or are payable based on, a LIBOR index. In 2017, U.K. Financial Conduct Authority (the "UK FCA"), the body that regulates and supervises the publication of LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the impact of the phase out of LIBOR or any future rule changes or benchmark rates adopted by the UK FCA or other regulatory body, if any, in replacement of LIBOR. If future uncertainty surrounding the calculation of LIBOR results in sudden changes in LIBOR rates, the interest payments on the Obligated Group's LIBOR-based obligations may be adversely affected. Further, uncertainty as to the benchmark rate or mechanism that may succeed LIBOR after 2021 may adversely affect the Obligated Group.

### **Market Risks and Interest Rate Swaps**

The Obligated Group Members have significant holdings in a broad range of investments. Market fluctuations have affected and will continue to affect the value of those investments and those fluctuations may be, and historically have been, material. Market disruptions have exacerbated the market fluctuations and have negatively affected the investment performance over certain time periods and in some cases materially diminished the liquidity of those investments. Investment income (including both realized and unrealized gains on investments) has contributed significantly to the Obligated Group's financial results over recent years. Any diminution of liquidity of the Obligated Group's investments could also have a material adverse impact on the financial condition or operations of the Obligated Group Members.

#### *Market for the Series 2020 Bonds*

Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2020 Bonds. There is presently no secondary market for the Series 2020 Bonds, and



no assurance can be given that a secondary market will develop. Consequently, investors may not be able to resell the Series 2020 Bonds purchased should they need or wish to do so.

### *Ratings*

There can be no assurance that the ratings assigned to the Series 2020 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2020 Bonds. See the information under the heading “RATINGS” in PART I of this Official Statement.

### *Future Legislation Regarding Limitations or Elimination of Tax-Exempt Status*

Future tax legislation, administrative actions taken by tax authorities or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on any tax-exempt debt of the Obligated Group under federal or state law or otherwise prevent beneficial owners of such debt from realizing the full current benefit of the tax status of such interest. In addition, such legislation, administrative actions and court decisions could affect the market price or marketability of any such tax-exempt debt.

### *Interest Rate Swaps*

Certain Obligated Group Members may utilize interest rate hedges, or swap agreements, to manage exposure to interest rate fluctuations. Swap agreements are subject to periodic “mark-to-market” valuations and may, at any time, have a negative value (which could be substantial) to the applicable Obligated Group Member. Changes in the market value of such swap agreements could negatively or positively impact the operating results and financial condition of the applicable Obligated Group Member, and such impact could be material. Any of the swap agreements to which an Obligated Group Member is a party may be subject to early termination upon the occurrence of certain specified events. If either the applicable Obligated Group Member or the counterparty terminates such an agreement when the agreement has a negative value to the applicable Obligated Group Member, the applicable Obligated Group Member could be obligated to make a termination payment to the applicable swap counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the financial condition of the applicable Obligated Group Member. In the event of an early termination of a swap agreement, there can be no assurance that (i) the applicable Obligated Group Member will receive any termination payment payable to it by the respective swap provider, (ii) the applicable Obligated Group Member will not be obligated to or will have sufficient monies to make a termination payment payable by it to the applicable swap provider, or (iii) the applicable Obligated Group Member will be able to obtain a replacement swap agreement with comparable terms. For information about the swap agreements to which Obligated Group Members are a party, see APPENDIX A – “FINANCIAL INFORMATION – Interest Rate Swaps.”

The Obligated Group’s swap transactions exposes the Obligated Group to basis risk because the interest rate on the Obligated Group’s tax-exempt variable rate hedged debt is set pursuant to market processes and is likely to be affected by changes in effective federal income tax rates or the Obligated Group’s credit, whereas the payments to be made by the swap counterparty under the respective interest rate swap transactions are based on one-month LIBOR, which is a taxable general market index. If the relationship between the actual variable interest rate on the hedged debt and LIBOR-based rate changes, the Obligated Group’s total interest cost could be higher or lower than the Obligated Group anticipated. See APPENDIX A – “FINANCIAL INFORMATION – Interest Rate Swaps.”

## **Patient Service Revenues**

Net patient service revenues realized by the Obligated Group Members are derived from a variety of sources and will vary among the individual facilities owned and operated by the Obligated Group Members. A substantial portion of the net patient service revenues of the Obligated Group Members is derived from third-party payors which pay for the services provided to patients covered by third parties. These third-party payors include the state Medicaid program, commercial health plans and insurers, including managed care organizations such as health maintenance organizations (“HMOs”), preferred provider organizations (“PPOs”) and, to a lesser extent, the federal Medicare program. Many third-party payors make payments to Obligated Group Members in amounts that may not reflect the direct and indirect costs of the Obligated Group Members providing services to patients.

The financial performance of the Obligated Group has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of this statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

## **Dependence upon Commercial Third-Party Payors**

The Obligated Group Members’ ability to develop and expand services and, therefore, operating margins, is dependent upon their ability to enter into contracts with commercial third-party payors, such as managed care organizations, at competitive rates. There can be no assurance that it will be able to attract third-party payors, and where it does, no assurance that it will be able to contract with such payors on advantageous terms. The inability of the Obligated Group to contract with a sufficient number of such payors on advantageous terms would have a material adverse impact on the financial condition or operations of the Obligated Group Members. Further, while the Obligated Group expects to control health care service utilization and increase quality, the Obligated Group cannot predict changes in utilization patterns or on health care providers. Additionally, commercial third-party payors are increasingly attempting to control health care costs through increased utilization reviews, greater enrollment in managed care programs, such as HMOs and PPOs, and directly contracting with health care facilities to provide services on a discounted basis. The trend toward consolidation among private managed care payors tends to increase their bargaining power over prices and fee structures. Other health care providers, including some with greater financial resources, greater geographic coverage or a wider range of services, may compete with the Obligated Group for opportunities with commercial insurers. For example, competitors may negotiate exclusivity provisions with certain managed care plans or otherwise restrict the ability of managed care companies to contract with Obligated Group providers.

The ACA imposes, over time, increased regulation of the industry, the use and availability of exchanges in which health insurance can be purchased by certain groups and segments of the population, the extension of subsidies and tax credits for premium payments by some consumers and employers, and the imposition upon commercial insurers of certain terms and conditions that must be included in contracts with providers. In addition, the ACA imposes many new obligations on states related to health care insurance. Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of this statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs.

It is unclear how the increased federal oversight of state health care may affect future state oversight or affect the Obligated Group. The effects of these changes upon the financial condition of any third-party payor that offers health care insurance, rates paid by third-party payors to providers and, thus, the revenues of the Obligated Group, and upon the operations, results of operations and financial condition of the Obligated Group cannot be predicted.

### **Government Regulation of the Health Care Industry**

A significant portion of the revenues of the Obligated Group is derived from government reimbursement programs including, in particular, the Medicaid program. *See* APPENDIX A hereto, under the heading “FINANCIAL INFORMATION – Sources of Payment,” for a breakdown of payment sources including Medicare and Medicaid. As a result, the Obligated Group Members are subject to all of the federal, state and local laws and regulations related to the Medicare and Medicaid programs. In addition to the Medicare and Medicaid programs, the Obligated Group Members and the health care industry in general are subject to regulation by a number of governmental agencies which affect the provision, administration and payment of health care services on both a national and local basis. Health care providers, including the Obligated Group Members, have been and will be affected significantly by changes that have occurred in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. *See* “REGULATION OF THE HEALTH CARE INDUSTRY.” Federal deficit reduction efforts have slowed the growth of federal Medicare and Medicaid spending, as discussed below.

### **Value-Based Care**

The health care industry is under pressure from the federal and state governments and managed care plans to transition from fee for service methods of payment to “value-based care.” *See* “REGULATION OF THE HEALTH CARE INDUSTRY.” There can be no assurance that management will be able to reduce the Obligated Group’s cost structure sufficiently quickly enough to align with potentially decreased revenues from a value-based care model, or that the Obligated Group will otherwise adapt to value-based care incentives sufficiently quickly to maintain positive financial results.

### **Managed Care Organizations**

HMOs, PPOs and other managed health care systems (collectively, “*Managed Care Organizations*”) are providers of health care coverage significantly different from traditional commercial insurers. Managed Care Organizations represent a broad continuum of systems generally designed to favorably affect the cost, the site and/or the utilization of health care services from a patient standpoint. As such, they include HMOs, which generally accept uniform per-employee payments from employers and/or employees with fees based on the number of enrollees and in return agree to provide all, or substantially all, of an enrollee’s health care needs, and PPOs, which generally negotiate favorable prices with providers and thus create preferred provider arrangements. Managed Care Organizations often rely upon case management analysis to reduce utilization of health care services, including discouraging an enrollee’s admission to a hospital unless determined to be absolutely necessary. As Managed Care Organizations’ enrollment increases, such entities also become significant purchasers of health care services from hospitals and other providers enabling negotiation of separate pricing terms and selection of health providers offering the most cost-effective services. Such case and cost management efforts on behalf of Managed Care Organizations may adversely affect utilization of the facilities and/or patient revenues of the Obligated Group.

Most Managed Care Organizations pay health care facilities on a discounted fee-for-service basis or on a discounted fixed rate per day of inpatient care. The discounts offered to Managed Care Organizations may result in payment at less than actual cost and the volume of patients directed to a health

care facility under a Managed Care Organization's contract may vary significantly from projections. In cases where a Managed Care Organization is a major purchaser of services from a particular health care facility operated by an Obligated Group Member, a contract rate reduction, contract cancellations, inability to pay, failure to make prompt payment, difficulty in meeting solvency thresholds, business failure or bankruptcy of the Managed Care Organization may have a substantial negative effect on the Obligated Group's financial condition.

Some Managed Care Organizations employ a "capitation" payment method under which health care providers are paid a predetermined periodic rate for each enrollee in the Managed Care Organization who is "assigned" or otherwise directed to receive care from a particular health care provider. The health care provider may assume financial risk for the cost and scope of institutional care provided. If payment is insufficient to meet the health care provider's actual cost of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the health care provider could erode rapidly and significantly. In addition to the standard Managed Care Organization risk sharing approach, private health insurance companies are increasingly adopting various additional risk sharing/cost containing measures, sometimes similar to those introduced by government payors. Health care providers may expect health care cost containment and its associated risk sharing to continue to increase in the coming years among all payors.

In recent years, a number of Managed Care Organizations have become insolvent or experienced financial pressure or cash flow issues. Such plans range in size from smaller local provider-based plans to some of the largest plans in the United States. These plans include traditional commercial insurers, as well as HMOs and PPOs. Managed Care Organizations that experience financial pressure may slow payment to providers, withhold pay entirely, or utilize claims payment methodology that systematically reduces compensation on a per claim basis. Managed Care Organizations that become insolvent may seek either federal bankruptcy or state insurance insolvency protection. Such bankruptcy or insurance insolvency protection may require that providers repay certain claims to the Managed Care Organization, or result in certain claims becoming uncollectible. It is not possible at this time to predict the future of the managed care industry in general or of specific Managed Care Organizations, or to predict what impact the state of the financial health of such organizations might have on the Obligated Group.

Often, managed care contracts are enforceable for a stated term, regardless of health care organization losses and may require health care organizations to care for enrollees for a certain time period, regardless of whether the payor is able to pay the health care organization. Health care organizations from time to time have disputes with Managed Care Organizations concerning payment and contract interpretation issues. Such disputes may result in mediation, arbitration, litigation or contract termination.

Failure to maintain contracts could have the effect of reducing a health care organization's market share and net patient services revenues. Conversely, participation may result in lower net income if participating health care organizations are unable to adequately contain their costs. In part to reduce costs, health plans are increasingly implementing, and offering to purchasing employers, tiered provider networks, which involve classification of a plan's network providers into different tiers based on care quality and cost. With tiered benefit designs, plan enrollees are generally encouraged, through incentives or reductions in copayments or deductibles, to seek care from providers in the top tier. Classification of a health care provider in a non-preferred or lower tier by a significant payor may result in a material loss of volume.

In addition to tiered provider networks, Managed Care Organizations are also implementing narrow provider networks in which only a select group of providers participate as in-network providers. Managed Care Organizations often look at quality performance and cost in selecting providers to participate in their narrow networks. A provider's exclusion from a narrow network may result in a material loss of volume. Managed Care Organizations may offer lower reimbursement for providers in their narrow networks in

exchange for additional volume expected from being one of a select group of network providers. This reimbursement may be insufficient to cover a network provider's cost in providing the services. The new demands of dominant health plans and other shifts in the managed care industry may also reduce patient volume and revenue.

In addition, the current trend of consolidation in the health insurance industry is likely to increase the leverage of commercial insurers when negotiating rates with health care providers. Large health insurers that assume dominant positions in local markets threaten to increase health insurer concentration, reduce competition and decrease choice. If an Obligated Group Member were to terminate its agreement with any of the major managed care payors or not agree to terms proposed by such payors, or if the payors were to exit the regional marketplace in some or all of their product lines, it could have a significant material adverse impact on the financial condition of the Obligated Group.

## **Federal Budget**

Federal deficit reduction efforts have slowed the growth of federal Medicare and Medicaid spending.

The Budget Control Act of 2011 (the "*Budget Control Act*") mandated significant reductions in federal spending for fiscal years 2012-2021, including a reduction of 2% on all Medicare payments during this period. Subsequent legislation enacted by Congress extended these reductions through 2029. There is a substantial risk that Congress could act to extend or increase these across-the-board reductions. President Trump's 2020 budget proposal calls for an \$845 billion reduction in Medicare spending and a \$1.5 trillion reduction in Medicaid spending over the next decade. It is impossible to predict what portion, if any, of these proposed federal health care spending reductions will be included in a Congressionally approved budget.

It is possible that Congress will take action to eliminate some or all of the reductions in the future, and any Congressional action could be made retroactive in order to eliminate some or all of the cuts that were imposed. However, there is no certainty that Congress will take any action. Absent further Congressional action, these automatic spending cuts become permanent. Because Congress may make changes to the budget in the future, it is impossible to predict the impact any spending cuts may have on the Obligated Group. Similarly, it is impossible to predict whether any automatic reductions to Medicare may be triggered in lieu of other spending cuts that may be proposed by Congress. Any further reduction in Medicare and/or Medicaid spending under either scenario, may have a material adverse effect upon the operations, financial condition and financial performance of the Obligated Group. Ultimately, these reductions or alternatives could have a disproportionate impact on hospital providers and could have an adverse effect on the operations, financial condition and financial performance of the Obligated Group, which could be material.

## **Federal Debt Ceiling**

The federal government is subject to a debt "ceiling" established by Congress. In the past several years, political disputes concerning authorization of a federal debt ceiling increase have led to shutdowns of substantial portions of the federal government and other federal budget authorization delays have occurred. Federal budget delays and federal government shutdowns are unpredictable and may occur in the future. Failure by Congress to increase the federal debt ceiling, federal budget authorization delays, federal government shutdowns, or other political challenges may cause Medicare or Medicaid reimbursements to be further reduced or paid late, which effects may have a material adverse impact on the financial condition or operations of the Obligated Group Members.

On August 2, 2019, the Bipartisan Budget Act of 2019 was signed into law, which suspended the debt ceiling until July 31, 2021. Any future failure to increase the federal debt limit could have a material adverse effect on the operations, financial condition, and financial performance of the health care industry and the Obligated Group. In addition, the market price or marketability of the Series 2020 Bonds in the secondary market could be materially adversely affected by any failure to increase the federal debt limit.

### **State Budget**

Pressures on the Texas state budget may negatively impact health care funding. The state budget may negatively impact the Obligated Group Members in a number of ways. The state faces increased health and welfare expense, including increased expenses for Medicaid. Such expenses may continue to increase in future fiscal years. Shortfalls between state revenues and spending demands, along with balanced budget requirements, have in the past and may in the future result in cutbacks to state-funded health care programs such as Medicaid. Such cutbacks may lead to a greater number of indigent patients who are unable to pay for their care and a greater number of individuals who qualify for Medicaid. The 2020-21 Texas State Budget included \$84 billion for health and human services, which was only a 1% increase from the prior two-year budget. The 2020-21 budget included a \$900 million cut to the Medicaid program. Such cutbacks may further cause the state to seek to generate revenue or reduce expenses by changing eligibility requirements for Medicaid recipients, changing the method of or reducing the amount of payments to hospitals for Medicaid services, delaying actual payments due to hospitals for Medicaid services, increasing the frequency of regulatory investigations, and/or changing the tax-exempt treatment of charitable organizations' income or real estate.

Management cannot predict what actions might be taken in future years by the state. Texas's actions will likely depend on national and state economic conditions and other factors that are unknown at this time.

### **General Economic Factors and Credit Market Disruptions**

The United States economy is unpredictable. Previous disruptions of the credit and financial markets have led to volatility in the securities markets, significant losses in investment portfolios, increased business failures and consumer and business bankruptcies and economic recession. In response to the 2008 recession, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "*Dodd-Frank Act*") was enacted in 2010. The Dodd-Frank Act included broad changes to the existing financial regulatory structure, including the creation of new federal agencies to identify and respond to the financial stability of the United States. On June 5, 2018, President Trump signed into law the Economic Growth, Regulatory Relief and Consumer Protection Act, which relaxes restrictions on large parts of the banking industry. The effects of the new law are unclear.

In the past, the economic climate has adversely affected the health care sector generally. Patient service revenues and inpatient volumes have not increased as historic trends would otherwise indicate. When unemployment rates were increasing nationally, increases in self-pay admissions, increased levels of bad debt and uncompensated care, reduced demand for elective procedures, and reduced availability and affordability of health insurance resulted. The economic climate has also increased stresses on state budgets, potentially resulting in reductions in Medicaid payment rates or Medicaid eligibility standards and delays in payment of amounts due under Medicaid and other state or local payment programs. Any similar economic recession in the future could have similar or worse effects.

## **Tax Reform**

On December 22, 2017, President Trump signed into law an act entitled, “H.R. 1: An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018,” known as the Tax Cuts and Jobs Act. The Tax Cuts and Jobs Act lowered corporate and individual tax rates and eliminated certain tax preferences and other tax expenditures. The Tax Cuts and Jobs Act also eliminated (effective January 1, 2019) the tax penalty associated with a key provision of the ACA known as the “individual mandate” or the “individual shared responsibility payment,” which imposed a tax on individuals who do not obtain health care insurance. Such elimination of the tax penalty associated with the individual mandate may result in a higher uninsured rate, which could have a materially adverse effect on Obligated Group Members.

## **Licensing, Certification and Accreditation Requirements**

The health care facilities of the Obligated Group Members are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These may be affected by regulatory action and policy changes by governmental and private agencies that administer Medicare, Medicaid and other third-party payment programs, as well as action by, among others, accrediting bodies such as The Joint Commission, and federal, state and local government agencies. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Actions in any of these areas could result in a reduction in utilization, revenues or both, or the inability of the Obligated Group Members (or future Obligated Group Members) to operate all or a portion of such facilities or to bill various third-party payors, and, consequently, could materially adversely affect Obligated Group Members.

## **Possible Staffing Shortages**

In recent years, the health care industry has suffered from a scarcity of physicians in certain specialties, nurses and other qualified health care technicians and personnel. Factors underlying this trend include increased demand for trained personnel combined with an insufficient number of qualified graduates to meet the growing need, and the aging of the workforce generally. Any of these factors may be expected to intensify in the future, aggravating the shortage of physicians, nursing personnel or other qualified health care technicians and personnel. This trend could force the Obligated Group Members to pay higher than anticipated salaries to personnel as competition for such employees intensifies and, in an extreme situation, could lead to difficulty maintaining licenses to provide health care services for the facilities of the Obligated Group Members and, as a result, maintaining eligibility for reimbursement under Medicare and the various state Medicaid programs. In the event of a shortage or difficulty in the direct hire of health care personnel, the Obligated Group Members could be required to seek indirect hire of such professionals through an increased use of third-party staffing, at higher cost.

## **Malpractice and General Liability Insurance**

In recent years, the number of malpractice and general liability suits and the dollar amount of damage recoveries have increased nationwide, resulting in substantial increases in insurance premiums. Actions alleging wrongful conduct and seeking punitive damages are often filed against hospitals. Litigation may also arise from the corporate and business activities of the Obligated Group, including employee-related matters, medical staff and provider network matters and denials of medical staff and provider network membership and privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims, business disputes and workers’ compensation claims are not covered by insurance or other sources and, in whole or in part, may be a

liability of the Obligated Group if determined or settled adversely. Claims for punitive damages may not be covered by insurance under certain state laws. Although the Obligated Group currently maintains actuarially determined self-insurance reserves and carries excess malpractice and general liability insurance which management considers adequate, management is unable to predict the availability, cost or adequacy of such insurance in the future.

The Centers for Medicare & Medicaid Services (“CMS”) and certain private insurers and HMOs will not reimburse hospitals for medical costs arising from certain “never events,” which include specific preventable medical errors. The occurrence of “never events” or “serious reportable events” is more likely to be publicized and may negatively affect a hospital’s reputation, reducing future utilization and potentially increasing the possibility of liability claims.

Any judgments or settlements that exceed insurance coverages or self-insurance reserves could have a material adverse effect on the financial condition of the Obligated Group. Moreover, the Obligated Group is not able to predict the cost or availability of any such insurance in the future. *See APPENDIX A hereto, under the heading “OTHER INFORMATION – Insurance Coverage.”*

### **Concentration Risks**

The Obligated Group’s operations are limited to North Texas, and a substantial amount of its revenue is realized from facilities in close proximity in the Dallas-Fort Worth-Arlington Metropolitan Statistical Area. This concentration makes it particularly sensitive to regulatory, economic, environmental and competitive conditions and changes in the State of Texas. Any material change in the current payment programs or regulatory, economic, environmental or competitive conditions in the state could have a substantial effect on its overall business results.

### **Facility Damage**

Hospitals are highly dependent on the condition and functionality of their physical facilities. Damage from natural causes, fire, deliberate acts of destruction, terrorism or various facility system failures may have a material adverse impact on hospital operations, financial conditions and results of operations, especially if insurance is inadequate to cover resulting property and business losses.

#### *Tornados and Other Natural Disasters*

The Obligated Group’s facilities are located in areas prone to tornadoes. The occurrences of natural disasters, including, but not limited to, tornados, hurricanes, floods, fires and earthquakes, may damage Obligated Group facilities, interrupt utility service to facilities or otherwise impair the operation of some Obligated Group facilities or the generation of revenues beyond existing insurance coverage.

### **Construction Risks**

Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals; delays related to the discovery of contaminated soil or ground water, mold, leaks or spills of chemicals, sealants, solvents or paints, or similar environmental hazards; labor strikes; shortages of qualified contractors or materials and labor; and adverse weather conditions. Such events could delay occupancy of major construction projects. Cost overruns may occur due to change orders, delays in construction schedules, discovery of environmental hazards described above, scarcity of building materials and labor, and other factors. Cost overruns could cause project costs to exceed estimates and require more funds than originally allocated or require Obligated Group to borrow additional funds to complete projects.



## **Increased Competition**

The health care business is highly competitive. The Obligated Group will likely face increased competition from other providers of health care that offer health care services to the population which the Obligated Group services. This could include the construction of new, or the renovation of existing, hospitals, specialty hospitals, ambulatory surgical centers and other ambulatory care facilities and private laboratory and radiological services. There are also some services that could be provided by others which could be substituted for some of the revenue generating services offered by the Obligated Group Members.

In Texas, no certificates of need or similar state approvals are required to construct or expand health care facilities. Services such as home care, intermediate nursing home care, preventive care and ambulatory care are increasingly being provided by alternative delivery systems. Alternative delivery systems have been encouraged by the changing policies of third-party payors, both governmental and private. Third-party payors have limited the payment rates for hospital stays and procedures, creating incentives that reduce hospital inpatient utilization and increase the use of outpatient services and out-of-hospital care.

Quality measures and future trends toward clinical transparency may have an unanticipated impact on the Obligated Group Members' competitive position and patient volumes. Health care consumers are now able to access hospital performance data on quality measures and patient satisfaction, as well as standard charges for services, to compare competing providers. If any of the Obligated Group Members' health care facilities achieve poor results (or results that are lower than their competitors') on quality measures or patient satisfaction surveys, or if patients perceive its standard charges as being higher than their competitors', such facilities may attract fewer patients.

Future competition may arise from new sources not currently anticipated or prevalent. Additionally, scientific and technological advances, new procedures, drugs and devices, preventive medicine and outpatient health care delivery may reduce utilization and revenues of hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

## **Uncompensated Care**

Hospital providers across the country continue to see a rise in uncompensated care that further increases the proportion of patients who are unable to pay fully for their cost of care. The Tax Cuts and Jobs Act's elimination of the penalty associated with the ACA's individual mandate is likely to increase the number of uninsured. Increases in contracted reimbursement rates may not be sufficient to fully offset the increased cost of uncompensated care.

Under Texas law, nonprofit hospitals must provide charity care and government sponsored indigent health care in an amount: (i) determined through a community needs assessment and other factors; (ii) at least 4% of the hospital's net patient revenue; (iii) equal to at least 100% of the hospital's tax-exempt benefits (excluding federal income tax exemptions); or (iv) charity care and community benefits must be provided in a combined amount equal to at least 5% of the hospital's net patient revenue, provided that charity care and government-sponsored indigent health care is provided in an amount equal to at least 4% of net patient revenue. Hospitals that qualify as disproportionate share hospitals are deemed to satisfy the requirements. Noncompliance with the charity care requirements may result in the loss of property, franchise and sales tax exemptions, which would have a material adverse effect on the financial condition of the Obligated Group.

## **Physician Relationships**

The success of the businesses conducted by Obligated Group Members depends in significant part on the number, quality, specialties, and admitting and scheduling practices of admitting physicians. Accordingly, it is essential to the Obligated Group Members' ongoing business that they attract an appropriate number of quality physicians in the specialties required to support their services and that they maintain good relationships with those physicians. A shortage of physicians, especially in primary care, could become a significant issue for health providers in the coming years.

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have membership or privileges curtailed, denied or revoked, often file legal actions against hospitals. Such action may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of the medical staff may result in hospital liability to third parties. All hospitals, including those owned and operated by the Obligated Group Members, are subject to such risk.

## **Labor Relations and Collective Bargaining**

Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. The Obligated Group Members currently do not have employees subject to collective bargaining agreements.

## **Class Actions**

Hospitals, health systems and other health care providers have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for hospitals, health systems and other health care providers. These class action suits have most recently focused on hospital billing and collections practices and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on hospitals and health systems in the future. See “– Wage and Hour Class Actions and Litigation” below.

## **Wage and Hour Class Actions and Litigation**

Federal law and many states, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large class actions. For large employers, such as the Obligated Group Members, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to an Obligated Group Member could have a material adverse effect.

## **Action by Consumers and Purchasers of Health Care Services**

Major purchasers of health care services also could take action to restrain hospital or other provider charges or charge increases. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and health care revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

## **Audits, Exclusions, Fines, Withholds and Enforcement Actions**

Health care providers participating in Medicare and Medicaid are subject to audits and retroactive audit adjustments by fiscal intermediaries under the Medicare and Medicaid programs. From an audit, a fiscal intermediary may conclude that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to admission as an inpatient should not have been billed as outpatient services, or that certain required procedures or processes were not satisfied, or that certain costs were unreasonable, not allowable, not incurred or incorrectly classified. As a consequence, payments may be retroactively disallowed or recouped. Regulations also provide for withholding of payments in certain circumstances, and such withholdings could have a substantial adverse effect on the financial condition of the health care provider, including, the Obligated Group Members. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal and state statutes, subjecting the health care provider to civil or criminal sanctions. The Obligated Group Members, as health care providers, are subject to all such risks. See the information under the heading “REGULATION OF THE HEALTH CARE INDUSTRY.”

## **Information Systems and Technology**

The ability to adequately price and bill health care services and to accurately report financial results depends on the integrity of the data stored within information systems, as well as the operability of such systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media is standard for clinical operations, medical records and order entry functions. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on hospitals and health care providers.

Future government regulation and adherence to technological advances could result in an increased need of the Obligated Group Members to implement new technology. Such implementation could be costly

and is subject to cost overruns and delays in application, which could negatively affect the financial condition of the Obligated Group.

Technological advances in recent years have forced hospitals to acquire sophisticated and costly equipment to remain technologically current. Moreover, the growth of e-commerce may also result in a shift in the way that health care is delivered (i.e., from remote locations). For example, physicians will be able to provide certain services over the internet and pharmaceuticals and other health services may be purchased online. If, due to financial constraints, Obligated Group Members were less able to acquire new equipment required to remain technologically current, the operations and financial condition of the Obligated Group could be materially adversely affected.

### **Cyber-Attacks**

Despite the implementation of network security measures by the Obligated Group Members, their information technology systems may be vulnerable to breaches, hacker attacks (including ransomware), computer viruses, physical or electronic break-ins and other similar events or issues. The Federal Bureau of Investigation has expressed concern that health care systems are prime targets for such cyber-attacks due to the mandatory transition from paper records to electronic health records and a higher financial payout for medical records in the black market, and health care systems have recently been subject to such attacks. Such events or issues could lead to the inadvertent disclosure of protected health information or other confidential information or could have an adverse effect on the ability of the Obligated Group Members to provide health care services. Any breach or cyber-attack that comprises patient data could result in negative press and substantial fines or penalties for violation of HIPAA (defined below) or similar state privacy laws. See “REGULATION OF THE HEALTH CARE INDUSTRY” below.

### **Antitrust**

Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, contracting with commercial insurers, Managed Care Organizations and other third-party payors, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violators of the antitrust laws may be subject to criminal and/or civil enforcement by federal and state agencies, as well as by private litigants in certain instances. At various times, an Obligated Group Member may be subject to an investigation or inquiry by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Common areas of potential liability are joint action among providers with respect to third-party payor contracting and medical staff credentialing. With respect to third-party payor contracting, an Obligated Group Member may, from time to time, be involved in joint contracting activity with hospitals, physicians or other providers. The precise degree, if any, to which this or similar joint contracting activities may expose the participants to antitrust risk is dependent on a myriad of factual matters. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Health care providers, including the Obligated Group Members, regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, health care providers occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may, therefore, also be liable with respect to such indemnity.

### **Environmental Laws and Regulations**

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations,

facilities and properties owned or operated by hospitals. Among the type of regulatory requirements faced by hospitals are (i) air and water quality control requirements, (ii) waste management requirements, (iii) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (iv) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at hospitals and (v) requirements for training employees in the proper handling and management of hazardous materials and wastes.

As the owner and operators of properties and facilities, Obligated Group Members may be subject to liability for hazardous substances that may have migrated off their properties, including remediation thereof. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Ongoing construction may exacerbate these risks. *See* “– Construction Risks” above. Such risks may (i) result in damage to individuals, property or the environment, (ii) interrupt operations and increase their cost, (iii) result in legal liability, damages, injunctions or fines and (iv) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the Obligated Group Members will not encounter such risks in the future, and such risks will not have a material adverse effect on the results of operations or financial condition of the Obligated Group.

At the present time, management is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues that, if determined adversely to an Obligated Group Member, would have a material adverse effect on the results of operations or financial condition of the Obligated Group as a whole.

#### **Affiliations, Merger, Acquisition and Divestiture**

Cook Children’s evaluates and pursues potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, Cook Children’s reviews the use, compatibility and business viability of many of the operations of the Obligated Group, and from time to time may pursue changes in the use of, or disposition of, facilities. Likewise, Cook Children’s occasionally receives offers from, or conducts discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or affiliates of the Obligated Group Members in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the Obligated Group. As a result, it is possible that the current organization and assets of the Obligated Group may change from time to time. Subject to the limitations contained in the Master Indenture, the operating assets of the Obligated Group could change from time to time, and it is possible that new entities could be added to the Obligated Group in the future.

If a proceeding were brought to dissolve an Obligated Group Member or a non-profit affiliate or to distribute its assets to other charitable donees, the Texas Attorney General may intervene and enter into a compromise, settlement, contract or judgment relating to the proceeding. The Attorney General is also authorized to bring suit against a non-profit hospital for a breach of certain of its duties. If an Obligated Group Member or an affiliate proposed to merge or affiliate with a for-profit or out-of-state health care entity or take some other action which might have an adverse effect on the distribution of its charitable assets, the Attorney General might bring an action to prevent the merger or affiliation. This power could interfere with possible workout or liquidation proceedings.

## **Additions to and Withdrawals from the Obligated Group**

Upon satisfaction of certain conditions in the Master Indenture, other entities may become Obligated Group Members and present Obligated Group Members may withdraw from the Obligated Group. If and when new Obligated Group Members are added or current Obligated Group Members withdraw, such changes to the Obligated Group membership could result in changes to the Obligated Group's financial situation and operations.

## **Replacement Master Indenture**

One of the amendments included in the First Supplement provides that upon the election of the Obligated Group Agent, in its sole discretion, Securities issued under the Master Indenture may be replaced by payment obligations issued under a Replacement Master Indenture upon delivery of such Replacement Master Indenture to the Master Trustee upon the terms and conditions provided in the First Supplement. The new obligated group may be different from the Obligated Group under the Master Indenture, and the financial condition or results of operations of the new obligated group may be materially different. Further, the Replacement Master Indenture may contain covenants and security that are different from the Master Indenture. *See* APPENDIX C – “SUMMARY OF MASTER INDENTURE, TRUST INDENTURE AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS – SUMMARY OF SPRINGING AMENDMENTS – Addition of Section 906 to the Master Indenture.”

## **Other Bondholders' Risks**

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group Members, or the market value of the Series 2020 Bonds, to an extent that cannot be determined at this time:

1. Hospitals are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Obligated Group bears a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Obligated Group Members are subject to all of the risks listed above, and such risks, alone or in combination, could have a material adverse consequences to the financial condition or operations of the Obligated Group Members.
2. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the facilities. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Obligated Group Members to offer the equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance these acquisitions or operations.
3. Reduced demand for the services of the Obligated Group Members that might result from decreases in population in their service area.

4. Increased unemployment or other adverse economic conditions in the service area of the Obligated Group Members which would increase the proportion of patients who are unable to pay fully for the cost of their care.
5. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Obligated Group Members.
6. Regulatory actions which might limit the ability of the Obligated Group to undertake capital improvements to their respective facilities or to develop new institutional health services.
7. The occurrence of a large-scale terrorist attack that increases the proportion of patients who are unable to pay fully for the cost of their care and that disrupts the operation of certain health care facilities by resulting in an abnormally high demand for health care services.
8. Instability in the stock market which may adversely affect both the principal value of, and income from, the Obligated Group's investment portfolio.
9. A national or localized outbreak of a highly contagious or epidemic disease.

## **REGULATION OF THE HEALTH CARE INDUSTRY**

### **General Health Care Industry Factors**

The Obligated Group, and the health care industry in general, are subject to regulation by a number of governmental agencies, including those which administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health planning programs and other federal, state and local governmental agencies. The health care industry is also affected by federal, state and local policies developed to regulate the manner in which health care is provided, administered and paid for nationally and locally. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. The pressure to curb the rate of increase in governmental spending in health care programs overall and on a per beneficiary basis is expected to increase as the U.S. population ages. Among other effects, this pressure may result in further reductions in payment rates for hospital services and increased utilization of managed care in the Medicare and Medicaid programs. In addition, Congress and other governmental agencies have focused on the provision of care to indigent and uninsured or underinsured patients, the prevention of "dumping" such patients on other hospitals in order to avoid provision of unreimbursed care and other issues. Adoption of additional regulations in these areas could have an adverse impact on the financial condition or operations of the Obligated Group Members. Furthermore, laws promulgated by Congress and state legislatures, which regulate the manner in which health care services are provided and billed for, are increasing. As a result, the costs of complying with these laws and regulations are increasing. Some of the legislation and regulations affecting the health care industry are discussed in this section.

### **Federal and State Legislation; National Health Care Reform**

#### *General*

A significant portion of the revenues of the Obligated Group is derived from Medicaid and other third-party payors. For a breakdown of the sources of payment for services provided by the Obligated Group Members, *see* APPENDIX A – "FINANCIAL INFORMATION – Sources of Payment" hereto.

Medicare is a federal program administered by the CMS, through Medicare Administrative Contractors. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older and other classes of individuals. Medicare Part A generally covers health services provided by institutional entities, including hospital, home health, nursing home care, and certain other providers. Medicare Part B, among other things, covers outpatient services, certain physician services, medical supplies and durable medical equipment. Cook Children's serves a very small number of Medicare patients and does not expect that to change significantly. Nonetheless, there are aspects of the Medicare regulations that affect how Cook Children's is paid by the Texas Medicaid program. Hospitals must qualify as a "children's hospital" under the Medicare regulations to qualify for cost reimbursement for hospital services paid for directly by the Texas Medicaid program. To remain qualified, Cook Children's may need to change its operations, policies and services from time to time to reflect any such changes in the conditions of participation in the Medicare program. Accordingly, changes in the Medicare program could significantly affect revenue received by Cook Children's from other government payors.

Medicaid is a federally assisted, state administered program of medical assistance that provides reimbursement for a portion of the cost of caring for certain indigent persons including: parents and caretakers, relatives of children, children, pregnant women, former foster care individuals, non-citizens with medical emergencies, aged or disabled individuals not currently receiving Supplemental Security Income, and other individuals that qualify for a state's Medicaid program. Under the ACA, states have the option to expand Medicaid to cover individuals under the age of 65 with incomes up to 138% of the federal poverty level; the federal government pays 90% of the cost for the expansion population in 2020 and beyond. To date, Texas has not expanded its Medicaid program. Medical benefits are available under each participating state's Medicaid program, within prescribed limits, to persons meeting certain minimum income or other need requirements. The Medicaid program provides payments for medical items and services for any person who is determined to be eligible for Medicaid assistance on the date of service. Federal and state funds support the Medicaid program. Medicaid benefits are available, within prescribed limits, to persons meeting certain minimum income or other need requirements. Payment for medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines, and providers are eligible to receive Medicaid payments up to, but not in excess of, the cost of providing such care. However, because the state is required to contribute funding prior to federal investment, most states' Medicaid programs reimburse providers for significantly less than the amount that would cover costs for treating this population. Fiscal considerations of state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries. Delays in appropriations and state budget deficits which may occur from time to time create a risk that payment for services to Medicaid patients will be withheld or delayed. CMS regulations can also impact services and facilities that are eligible for reimbursement. Payments under the Medicaid program represent a significant portion of the Obligated Group's gross patient service revenue.

Significant changes have been and will likely continue to be made in these programs, which changes could have an adverse impact on the financial condition of the Obligated Group. In addition, bills have in the past and may in the future be introduced in Congress which, if enacted, could adversely affect the operations of the Obligated Group by, for example, decreasing payment by Medicare and Medicaid and other third-party payors or limiting the ability of the physicians on the medical staff of the Obligated Group to provide services or increase services provided to patients.

Participation in any federal health care program is heavily regulated. Providers and suppliers that participate in the Medicare and Medicaid programs must agree to be bound by the terms and conditions of the programs, such as meeting quality standards for rendering covered services and adopting and enforcing policies to protect patients from certain discriminatory practices, and must disclose certain ownership interests and/or managing control information. If a health care entity fails to substantially comply with any



applicable conditions of participation in the Medicare and Medicaid programs or performs certain prohibited acts, the entity's participation in these programs may be terminated, and civil and/or criminal penalties may be imposed.

The discussion herein describes risks associated with certain existing federal and state laws, regulations, rules, and governmental administrative policies and determinations to which the Obligated Group Members and the health care industry are subject. These are regularly subject to change. Additionally, because health care regulations are particularly complex, such regulations may be interpreted and enforced in a manner that is inconsistent with management's interpretation. The Obligated Group's business or financial condition could be harmed if a Member is alleged to have violated existing health care regulations or if a Member fails to comply with new or changed health care regulations. Furthermore, health care, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. Further changes in the health care regulatory framework which increase the burdens on health care providers could have a material adverse impact on the financial condition or operations of the Obligated Group Members.

Also, there can be no assurances that any current health care laws and regulations, including the ACA, will remain in their current form. There can be no assurances that any potential changes to the laws and regulations governing health care would not have a material adverse financial impact on the financial condition or operations of the Obligated Group Members. Therefore, the following discussion should be read with the understanding that significant changes could occur in the foreseeable future in many of the statutory and regulatory matters discussed.

#### *The Affordable Care Act ("ACA")*

The ACA has significantly changed, and continues to change, how health care services are covered, delivered, and financed in the United States. The primary goal of the ACA – extending health coverage to millions of uninsured legal U.S. residents – has taken place through a combination of private sector health insurance reforms and Medicaid program expansion (discussed below). To fund Medicaid expansion, the ACA includes a broad array of quality improvement programs, cost-efficiency incentives, and enhanced fraud and abuse enforcement measures, each designed to generate savings within the Medicare and Medicaid programs. Additionally, the ACA created health insurance exchanges – competitive markets for individuals and small employers to purchase health insurance – and financial programs designed to encourage insurance companies to offer plans on the health insurance exchanges.

The ACA and its implementation have been, and remain, politically controversial. The ACA has continually faced, and continues to face, legal and legislative challenges, including repeal efforts. President Trump and Republican leaders of Congress have repeatedly cited health care reform, and particularly repeal and replacement of the ACA, as a key goal. To that end, Congressional leaders have introduced various ACA repeal bills. While no bills wholly repealing the ACA have passed both chambers of Congress, the Tax Cuts and Jobs Act (discussed above) effectively eliminated a key provision of the ACA – a tax penalty associated with failing to maintain health coverage (the "*Individual Mandate Tax Penalty*") by reducing the penalty to zero dollars effective January 1, 2019. Additionally, in December 2018, a Texas Federal District Court judge in the case of *Texas v. Azar* declared the ACA unconstitutional, reasoning that the Individual Mandate Tax Penalty was essential to and not severable from the remainder of the ACA. In a letter dated March 25, 2019, the U.S. Department of Justice stated that it "has determined that the district court's judgment should be affirmed." On December 18, 2019, the U.S. Court of Appeals for the Fifth Circuit affirmed the District Court's decision that the Individual Mandate Tax Penalty is unconstitutional but remanded the case to the District Court to further examine whether the Individual Mandate Tax Penalty is severable from the remainder of the ACA and to provide additional analysis of the provisions of the ACA as they currently exist. The intervenor states and the U.S. House of Representatives have appealed the Fifth

Circuit decision to the U.S. Supreme Court and have requested an expedited briefing schedule. The ACA will remain law while the case proceeds through the appeals process; however, the case creates additional uncertainty as to whether any or all of the ACA could be struck down, which creates operational risk for the health care industry. Management cannot predict the effect of the elimination of the Individual Mandate Tax Penalty, the final result and effect of the *Texas v. Azar* case, the likelihood of any future ACA repeal bills or other health care reform bills becoming law, or the subsequent effects of any such laws or legal decisions, though such effects could materially impact the Obligated Group's business or financial condition. In particular, any legal, legislative or executive action that (1) reduces federal health care program spending, (2) increases the number of individuals without health insurance, (3) reduces the number of people seeking health care, or (4) otherwise significantly alters the health care delivery system or insurance markets, could have a material adverse impact on the financial condition or operations of the Obligated Group Members.

Executive branch actions can also have a significant impact on the viability of the ACA. President Trump has issued two broad executive orders aimed at de-regulation: (1) one requiring federal agencies to remove two previously implemented regulations for every new regulation added, and (2) one directing each federal agency to set up a "regulatory reform task force" to review existing regulations and eliminate those that are costly or unnecessary. President Trump has issued executive actions directly aimed at the ACA: (1) one requiring federal agencies with authorities and responsibilities under the ACA to "exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay" parts of the law that place "unwarranted economic and regulatory burdens" on states, individuals or health care providers, (2) a second instructing federal agencies to make new rules allowing the proliferation of "association health plans" and short-term health insurance, which plans have fewer benefit requirements than those sold through ACA insurance exchanges, (3) a third ordering the federal government to withhold ACA cost-sharing subsidies currently paid to insurance companies in order to reduce deductibles and co-pays for many low-income people, and (4) a fourth order regarding health care price and quality transparency that directs federal rulemaking by executive agencies to increase transparency of healthcare price and quality information. Additional executive branch actions include: (i) the issuance of a final rule in June 2018 by the Department of Labor to enable the formation of health plans that would be exempt from certain ACA essential health benefits requirements; (ii) the issuance of a final rule in August 2018 by the Departments of Labor, Treasury, and Health and Human Services to expand the availability of short-term, limited duration health insurance; (iii) eliminating cost-sharing reduction payments to insurers that would otherwise offset deductibles and other out-of-pocket expenses for health plan enrollees at or below 250 percent of the federal poverty level; (iv) relaxing requirements for state innovation waivers that could reduce enrollment in the individual and small group markets and lead to additional enrollment in short-term, limited duration insurance and association health plans; and (v) the issuance of a final rule by the Departments of Labor, Treasury, and Health and Human Services ("*DHHS*") that would incentivize the use of health reimbursement arrangements by employers to permit employees to purchase health insurance in the individual market. The uncertainty resulting from these executive branch policies led to reduced exchange enrollment in 2018 with final CMS reported data for 2019 indicating further decline, and is expected to further worsen the individual and small group market risk pools in future years. It is also anticipated that these and future policies may create additional cost and reimbursement pressures on hospitals.

In November 2019, CMS published a final rule under the Outpatient Prospective Payment System ("*OPPS*") requiring that each hospital location publish a yearly list of the hospital's standard charges for items and services provided by the hospital. Under the rule, hospitals must make public discounted cash prices, payor-specific negotiated charges, and de-identified minimum and maximum negotiated charges for at least 300 shoppable services, 70 of which will be specified by CMS and the remaining 230 selected by the hospital. Hospitals must display the required information prominently, in a consumer-friendly manner, and clearly identify the hospital location with which the standard charge information is associated on a

publicly available website. A lawsuit has been filed by several hospital associations, health systems, and hospitals in the U.S. District Court for the District of Columbia challenging the legal authority of DHHS to implement the final rule. Management of the Obligated Group is unable to predict the ultimate outcome of this legal challenge and the type of relief that may be ordered by the Courts. Failure to comply with the above requirements may result in daily monetary penalties to the hospital. The deadline for compliance with the final rule is January 1, 2021. Publication of hospital standard charges as required may result in changes to consumer choice in a manner that may negatively impact the Obligated Group. Accordingly, there can be no assurances that compliance with these requirements would not have a material adverse financial or operational impact on the Obligated Group.

These executive actions have the potential to significantly impact the insurance exchange market by causing a reduction in the number of healthy individuals in the ACA health insurance exchanges, a reduction in the number of plans available on the health insurance exchanges, and/or an increase in insurance premiums. Management cannot predict the likelihood or effect of any current or future executive actions on the Obligated Group's business or financial condition, though such effects could be material.

The majority of the ACA remains law. Certain key provisions of the law are briefly described below:

1. Private Health Insurance Coverage Expansion/Insurance Market Reforms. One key provision of the ACA was the Individual Mandate Tax Penalty (discussed above) which required most individuals to maintain "minimum essential" health coverage or pay a tax penalty to the federal government. Individuals who were not deemed exempt from the Individual Mandate Tax Penalty and otherwise did not obtain health coverage through an employer or government program were expected to satisfy the mandate by purchasing insurance from a private company or through a "health insurance exchange." The health insurance exchanges are government-established organizations that provide competitive markets for buying health insurance by offering individuals and small employers a choice of different health plans, certifying plans that participate, and providing information to help consumers better understand their options. The Tax Cuts and Jobs Act effectively eliminated the Individual Mandate Tax Penalty by reducing the penalty to zero dollars effective January 1, 2019. While the effect of the elimination of the Individual Mandate Tax Penalty remains uncertain, it has been predicted that it will result in fewer healthy individuals purchasing insurance (through the exchanges or otherwise) and increase the number of uninsured individuals.

The health insurance exchanges may have a positive impact for health care facilities to the extent they increase the number of individuals with health insurance. Conversely, health insurance exchanges may have a negative financial impact on health care providers to the extent (1) insurance plans purchased on the exchanges reimburse providers at lower rates or (2) high-deductible plans offered on the exchanges become more prevalent and lead to lower inpatient volumes as patients choose to forgo medical treatment.

The ACA also includes an "employer mandate." The "employer mandate" provisions require the imposition of penalties on employers having 50 or more employees that do not offer qualifying health insurance coverage to those working 30 or more hours per week. The ACA also established a number of other health insurance market reforms, including bans on lifetime limits and pre-existing condition exclusions, new benefit mandates, and increased dependent coverage (until the age of 26).

Management cannot predict the future of the health insurance markets or the effects of current and future health reform efforts on such markets, though such effects may materially affect the Obligated Group's business or financial condition.

2. Medicaid Expansion. Another key provision of the ACA is the expansion of Medicaid coverage. Prior to the passage of the ACA, the Medicaid program offered federal funding to states to assist

limited categories of low-income individuals (including children, pregnant women, the blind and the disabled) in obtaining medical care. The ACA permits states to expand Medicaid program eligibility to virtually all individuals under 65 years old with incomes up to 138% of the federal poverty level, and provides enhanced federal funding to states that opt to expand. There is no deadline for a state to undertake expansion and qualify for the enhanced federal funding available under the ACA. For states that choose not to participate in the federally funded Medicaid expansion, like Texas, the net positive effect of ACA reforms has been significantly reduced. See “State Medicaid Programs” below for information regarding Texas’ Medicaid program.

3. Spending Reductions. The ACA contains a number of provisions designed to significantly reduce Medicare and Medicaid program spending, including: (1) negative adjustments to the “market basket” updates for Medicare’s inpatient, outpatient, long-term acute and inpatient rehabilitation prospective payment systems, and (2) reductions to Medicare and Medicaid disproportionate share hospital (“DSH”) payments. Any reductions to reimbursement under the Medicare and Medicaid programs could have a material adverse impact on the Obligated Group’s business or financial condition to the extent such reductions are not offset by increased revenues from providing care to previously uninsured individuals or from other sources.

4. Quality Improvement and Clinical Integration Initiatives. The ACA mandated the creation of a number of payment reform measures designed to incentivize or penalize hospitals based on quality, efficiency and clinical integration measures created and authorizes the Center for Medicare & Medicaid Innovation within CMS to develop and test new payment methodologies designed to improve quality of care and lower costs. Current programs include (1) the “Readmission Reduction Program,” which reduces Medicare payments by specified percentages to hospitals with excess or preventable hospital admissions based on historical discharge data, (2) the “Hospital Value-Based Purchasing Program,” which imposes an across-the-board reduction in inpatient reimbursement and then reallocates and redistributes those funds to hospitals based on quality and patient experience measures, and (3) the “Hospital-Acquired Condition Reduction Program,” which negatively adjusts payments to applicable hospitals that rank in the worst-performing quartile for risk-adjusted hospital-acquired condition measures. Management is not currently aware of any situation in which an ACA quality, efficiency, or clinical integration program is materially adversely affecting the business or financial condition of the Obligated Group. However, the Obligated Group’s business or financial condition may be adversely affected by such programs in the future.

5. Fraud and Abuse Enforcement Enhancements. In an attempt to reduce unnecessary health care spending, the ACA includes a number of provisions aimed at combating fraud and abuse within the Medicare and Medicaid programs. Such provisions provide increased federal funding to fight health care fraud and abuse, provide government agencies with additional enforcement tools and investigation flexibility, facilitate cooperation between agencies by establishing mechanisms for information sharing, and enhance criminal and administrative penalties for non-compliance with the federal fraud and abuse laws (e.g., the Anti-Kickback Law, the Stark Law and the FCA, each as defined and discussed below). Management is not currently aware of any pending recovery audit which, if determined adversely to the Obligated Group, would materially adversely affect the business or financial condition of the Obligated Group.

To the extent the ACA remains law, it is difficult to predict the full impact of the ACA on the Obligated Group’s future revenues and operations due to uncertainty regarding a number of material factors, including: (1) the number of uninsured individuals to ultimately obtain and retain insurance coverage as a result of the ACA, (2) the percentage of any newly insured patients covered by Medicaid versus a commercial plan, (3) the pace at which insurance coverage expands, (4) future changes in the reimbursement rates and methods, (5) the percentage of individuals in the exchanges who select the high-deductible plans, (6) the extent to which the enhanced program integrity and fraud and abuse

provisions lead to a greater number of civil or criminal actions, (7) the extent to which the ACA tightens health insurers' profits, causing the plans to reduce reimbursement rates, (8) the extent of lost revenues, if any, resulting from ACA quality initiatives, and (9) the success of any clinical integration efforts or programs in which the Obligated Group participates.

### *Medicare Reimbursement*

Medicare is of limited relevance to children's hospitals because it provides reimbursement only for children with end stage renal disease and certain others qualified for Supplemental Security Income disability. Children's hospitals are also expressly excluded from the Medicare prospective payment system of reimbursement and continue to receive Medicare reimbursement for inpatient hospital services on a reasonable cost basis. Medicare gross revenue does not represent a material amount of the Obligated Group's gross patient service revenue.

Hospitals generally are paid for inpatient and outpatient services provided to Medicare beneficiaries under a prospective payment system ("*PPS*"). Under PPS, a fixed payment is made to hospitals based on the average cost of care incurred in providing various kinds of services. Additionally, under PPS, the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of PPS.

Value-based purchasing and other alternative payment model initiatives tying health care provider reimbursement to quality, efficiency, or patient outcome measures will increasingly affect health care provider operations and may negatively impact revenues if the provider is unable to meet targeted measures. CMS had set a goal of tying 50% of traditional Medicare payments to quality or value through alternative payment models such as accountable care organizations, bundled payment arrangements or integrated care demonstrations by the end of 2018, and it continues to focus on moving the health care system towards paying for value. In 2016, CMS released final regulations for implementation of the Medicare Access and CHIP Reauthorization Act ("*MACRA*") and its physician Quality Payment Program ("*QPP*"), which dramatically alter the way physicians and other clinicians are reimbursed by Medicare. The QPP and other federal delivery reform initiatives evidence a rapid volume to value shift within Medicare and could present challenges for the Obligated Group and the employed or contracted clinicians with whom the Obligated Group partners to deliver care. It is generally anticipated that CMS will continue to experiment with additional alternative payment models. Additionally, private payors are moving toward value-based purchasing and alternative payment models.

### *Hospital Inpatient Reimbursement*

Under PPS, acute care hospitals generally are paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups ("*DRGs*"). Hospitals also may receive outlier payments for extraordinarily costly cases that exceed a federally established condition-based threshold. DRG rates and outlier thresholds are subject to adjustment by CMS. There is no guarantee that hospital inpatient reimbursement will cover actual costs of providing services to Medicare patients.

### *Hospital Outpatient Reimbursement*

Hospitals generally are paid for outpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as ambulatory payment classifications ("*APC*"). The actual cost of care, including capital costs, may be more or less than the reimbursements based on

APCs. There is no guarantee that hospital outpatient reimbursement will cover actual costs of providing services to Medicare patients.

### *Bipartisan Budget Act of 2015*

The Bipartisan Budget Act of 2015 (the “*BBA 2015*”) changed the reimbursement methodology for items and services furnished in certain off-campus hospital outpatient departments (“*HOPDs*”). Beginning January 1, 2017, off-campus HOPDs established on or after November 2, 2015 (“*non-excepted HOPDs*”) are no longer eligible for payment under the for non-emergency services. A hospital outpatient department is considered to be “off-campus” if it is located more than 250 yards from a main provider hospital or a remote location of a hospital. Instead, non-emergency services performed at these facilities will be paid under the Medicare Physician Fee Schedule (“*PFS*”) at a set of PFS payment rates that are specific to hospitals. Effective January 1, 2018, these hospital specific PFS rates are based on 40% of the comparable OPPS rate.

Beginning January 1, 2019, CMS began applying the PFS equivalent pay rate for certain evaluation and management services when provided at an off-campus HOPD that is paid under the OPPS, including at those HOPDs grandfathered under BBA 2015, stepping down from 70% of OPPS rates in 2019 and 40% of OPPS rates in 2020 and thereafter. The American Hospital Association challenged this payment policy in court, and the United States District Court for the District of Columbia issued instructions for CMS to immediately cease the payment reduction for 2019. In accordance with the instruction, on November 4, 2019, CMS implemented an update to rates for claims with a date of service of January 1, 2019 and thereafter. Beginning January 1, 2020, CMS will automatically reprocess claims originally paid at the reduced rate. However, CMS finalized a policy in the 2020 OPPS final rule that will implement the off-campus site-neutral clinic visit reimbursement rate to 40% of the OPPS rate beginning January 1, 2020. On January 13, 2020, the American Hospital Association and several hospitals filed a lawsuit in the United States District Court for the District of Columbia to invalidate the final rule that would lower payments to off-campus provider-based clinics. Management of the Obligated Group is unable to predict the ultimate outcome of this legal challenge and the type of relief that may be ordered by the Courts

### *Section 340B Drug Pricing Program*

Hospitals that serve a high percentage of low income patients are eligible for reduced pricing on certain covered outpatient drugs through the 340B program (“*340B Program*”).

CMS’s calendar year 2018 final OPPS rule, issued on November 13, 2017, substantially reduced Medicare Part B reimbursement for 340B Program drugs paid to hospitals and ASCs. Beginning January 1, 2018, CMS reimbursement for certain separately payable drugs or biologicals that are acquired through the 340B Program by a hospital paid under the OPPS (and not excepted from the payment adjustment policy) is the average sales price (“*ASP*”) of the drug or biological minus 22.5 percent, an effective reduction of 26.89% in payments for 340B program drugs. In calendar year 2019, rural sole community hospitals, children’s hospitals, and PPS-exempt cancer hospitals are excepted from the 340B payment adjustment. In the calendar year 2019 OPPS final rule, CMS extended the policy to pay ASP minus 22.5% for 340B-acquired drugs when those drugs are furnished by non-excepted off-campus HOPDs. In the calendar year 2020 OPPS final rule, CMS finalized a policy to continue to pay ASP minus 22.5% for 340B-acquired drugs furnished by non-excepted off-campus HOPDs.

In December 2018, the U.S. District Court for the District of Columbia ruled that DHHS did not have statutory authority to implement the 2018 Medicare OPPS rate reduction related to hospitals that qualify for drug discounts under the 340B Program and granted a permanent injunction against the payment reduction. The hospitals subsequently asked the court for a permanent injunction on the 2019 OPPS final

rule. On May 6, 2019, the court held that the 2018 and 2019 rate reductions were unlawful and remanded the rules back to DHHS. The case has been appealed by DHHS to the Circuit Court of Appeals for the D.C. Circuit. In the 2020 OPPS proposed rule, CMS requested comments on potential corrective actions in the event the government is unsuccessful on appeal, such as implementing a reimbursement rate of ASP plus 3%. In the 2020 OPPS final rule, CMS stated that it will consider stakeholder comments as it examines new policies and possible remedies. At the same time, CMS finalized its proposal to continue to reimburse 340B drugs at ASP minus 22.5% for 2020. Management is unable to predict the ultimate outcome of any appeal and the type of relief that may be ordered by the courts.

A decrease in reimbursement for 340B Program drugs or loss of discount procurement opportunities could have an adverse effect on certain Obligated Group Members. Congress is considering further changes to the 340B Program and the regulatory environment for the 340B Program remains uncertain. Any reduction in eligibility for, or other further changes to, the 340B Program generally could have a materially adverse impact on the financial condition or operations of the Obligated Group Members.

#### *Medical Education Payments*

Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination. The direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit. There can be no assurance that medical education payments will remain at current levels.

Cook Children's receives Children's Hospital Graduate Medical Education ("CHGME") payments for direct and indirect expenses associated with operating approved graduate medical residency training programs for each fiscal year. Cook Children's must qualify as a "children's hospital" under the Medicare regulations to qualify for grants for the training of medical residents. The CHGME Support Reauthorization Act of 2018 reauthorized CHGME program for five years through 2023 with a slight increase in funding each year.

#### *Medicare DSH Payments*

The Medicare DSH payment is a percentage add-on to the standardized payment per discharge under the Medicare PPS for the operating costs of inpatient hospital services. There are two methods for determining qualification for Medicare DSH payments and the amount of payments. The first, most common, method is based on a hospital's disproportionate patient percentage, which considers the proportion of patients eligible for Medicaid but not Medicare Part A and the proportion of Medicare Part A patients who are also entitled to supplemental security ("SSI") benefits. The second method is based on a hospital's percentage of revenues attributable to state and local funding (excluding Medicaid and Medicare revenues) for low-income patient care.

The ACA provides for a reduction in Medicare DSH payments, which took effect on October 1, 2013. Instead of the amount that would otherwise be paid as the DSH adjustment, hospitals receive 25% of the amount they would have previously received. The remainder, equal to 75% of what otherwise would have been paid as Medicare DSH, becomes available for an uncompensated care payment after the amount is reduced for changes in the percentage of individuals who are uninsured. CMS is currently using uncompensated care costs reported on Worksheet S-10 in combination with insured low income days (the sum of Medicaid days and Medicare SSI days) to develop hospital uncompensated care payments. Each hospital eligible for Medicare DSH payments receives an uncompensated care payment based on its relative share of total uncompensated care costs and low income days reported by Medicare DSHs.

Medicare DSH payments will decrease as the number of uninsured decreases. Congress may make changes to the budget in the future and CMS may change its methodology for calculating uncompensated care costs and other elements of the DSH payment in the future. There can be no assurance that the current level of Medicare DSH reimbursement will continue in the future.

### *Value-Based Payments*

The ACA has increased the use of value-based payments to incentivize providers to control costs and provide better quality care. These models can seek both vertical and longitudinal alignment of health care providers and payors and can require providers to share in upside and/or downside financial risk. Current models include bundled payment models and accountable care/population health models. Bundled payment models establish a budgeted payment to cover the entire cost of an episode of care (e.g., a hip or knee replacement). Examples of bundled payment models include, among others, Bundled Payments for Care Improvement (“BPCI”) Initiative models 2, 3 and 4 (which expired September 30, 2018); BPCI-Advanced; Comprehensive Care for Joint Replacement; and the Oncology Care Model. Population health models incentivize providers to maintain or improve quality while reducing cost through shared savings or shared loss arrangements. Population health models usually involve a form of capitated payment, which is a per patient payment for the cost of care over a set period of time. Population health models include the Medicare Shared Savings Program (“MSSP”) and Next Generation Accountable Care Organization (“ACO”) model.

CMS has encouraged the use of alternative payment models and it is generally anticipated that CMS will continue to experiment with additional alternative payment models. Additionally, private payors are moving toward value-based purchasing and alternative payment models. Value-based and other alternative payment model initiatives tying health care provider reimbursement to quality, efficiency, or patient outcome measures will increasingly affect health care provider operations and may negatively impact revenues if the provider is unable to meet targeted measures.

In 2015, CMS set a goal of tying 50% of traditional Medicare payments to quality or value through alternative payment models such as accountable care organizations, bundled payment arrangements or integrated care demonstrations by the end of 2018. While CMS has since stated that it is no longer aiming for these Obama-era goals, it continues to propose new payment models and evaluate the impact of existing ones, which has led to some confusion in the industry.

### *Physician Payments*

Payment for physician fees is covered under Medicare Part B. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a fee schedule known as the “resource-based relative value scale” (“RBRVS”). RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

In April 2015, MACRA established QPP, which repealed the sustainable growth rate methodology for updates to the PFS, changed the way that Medicare rewards clinicians for services, streamlined existing quality and value programs, and provided for bonus payments to physicians and other clinicians for participating in certain payment models. The QPP provides incentive payments to eligible clinicians participating in Medicare Part B through two tracks: the Merit-based Incentive Payment System (“MIPS”) and Advanced Alternative Payment Models (“Advanced APMs”). In 2016, CMS released final regulations implementing the QPP. The 2020 PFS final rule budget neutrality factor would adjust reimbursement levels upward by 0.14% in 2020; otherwise PFS would then remain at the same reimbursement level (0.0%



increase) through 2025. Beginning in 2026, the PFS will be increased either by (i) 0.25% annually for providers participating in MIPS, or (ii) 0.75% annually for providers participating in Advanced APMs.

MIPS, which is the “default track” under MACRA, provides eligible clinicians with an adjustment to their Medicare Part B reimbursement based on performance in four categories: Quality, Promoting Interoperability, Improvement Activities and Cost. MIPS combines into a single program aspects of CMS’s prior quality and value programs, including the Physician Quality Reporting System, Medicare Electronic Health Records Incentive Program, and the Physician Value-Based Payment Modifier. MIPS eligible clinicians include physicians, physician assistants, nurse practitioners, clinical nurse specialists and certified registered nurse anesthetists. 2017 was the first MIPS performance period. CMS scored and weighted the data reported for performance year 2017 and applied a performance adjustment in the 2019 payment year. 2020 PFS payments are being adjusted based on performance year 2018 results.

Advanced APMs are alternative payment models (“APMs”) that use certified electronic health record technology, provide for payment for covered professional services based on quality measures comparable to those in the quality performance category under MIPS, and either require that participating APM entities bear risk for financial losses of more than a nominal amount under the APM or be a type of Medical Home Model. Eligible clinicians who meet threshold Medicare participation levels in their Advanced APMs may be entitled to incentive payments.

The QPP and other federal delivery reform initiatives evidence a rapid volume-value shift within Medicare and could present challenges for certain of the Obligated Group Members and the employed or contracted clinicians with whom the Obligated Group Members partner to deliver care. The new quality reporting programs may negatively impact the reimbursement amounts received by the Obligated Group for the cost of providing physician services.

#### *Medicare Trust Funds*

Two trust funds are maintained as part of the Medicare Program. Hospital Insurance (“HI”) or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled and is financed primarily by payroll taxes paid by workers and employers. The Medicare Board of Trustees’ annual report in April 2019 indicated that the HI Trust Fund is not financed adequately and is projected to be exhausted in 2026. The other trust fund and various other components of the Medicare Program also have significant funding challenges. The trustees recommended that Congress and the executive branch work together with a sense of urgency to address the depletion of the HI Trust Fund and the projected growth in hospital and other expenditures. Accordingly, it is likely that statutory and regulatory attempts to contain increases in Medicare costs will continue in the future.

#### *Medicaid Reimbursement*

Payments made to health care providers under the Medicaid program are subject to changes as a result of federal or state legislative and administrative actions, including further changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may continue to occur in the future, particularly in response to federal and state budgetary constraints coupled with increased costs for covered services.

In fiscal year 2019, the Medical Center received approximately 38.2% of its net patient service revenues through the Medicaid program. The State of Texas has declined to participate in a federally subsidized expansion of the Medicaid program. This failure to expand Medicaid funding, in combination with other federal funding reductions intended to correspond with prospective Medicaid expansion, could

adversely affect Cook Children's net revenue. Cook Children's could also be adversely affected if audits of its charges for Medicaid patients were to allege overcharges in excess of reserves. These and future changes could negatively affect Cook Children's in a manner and to an extent that cannot be fully predicted. See "FINANCIAL INFORMATION – Sources of Payment" in APPENDIX A.

Hospitals participating in the Medicaid program are subject to numerous requirements and regulations under the program. Failure to remain in compliance with any program requirements may subject the Medicaid provider to civil and/or criminal penalties, including fines and suspension or expulsion from the program, preventing the provider from receiving any funds under the Medicaid program. Noncompliance with Medicaid requirements, and suspension or exclusion from the Medicaid program, can also be a basis for mandatory or permissive suspension or exclusion from the Medicare program.

Significant changes have been and may be made in the Medicaid program which could have a material adverse effect on the financial condition of the Obligated Group. For example, under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards, and the ACA provides significantly enhanced federal funding for states to expand their Medicaid program to virtually all non-elderly, non-disabled adults with incomes up to 138% of the federal poverty level. Attempts to balance or reduce the federal and state budgets by decreasing funding of Medicaid may negatively impact spending for Medicaid and other state health care programs spending. Health care providers have been affected significantly in the last several years by changes to federal and state health care laws and regulations, particularly those pertaining to Medicaid. The purpose of much of this statutory and regulatory activity has been to contain the rate of increase in health care costs, particularly costs paid under the Medicaid program. Diverse and complex mechanisms to limit the amount of money paid to health care providers under the Medicaid program have been enacted, and may have a material adverse effect on the operations or financial condition of the Obligated Group.

#### *State Medicaid Programs*

While state Medicaid programs are rarely as important as the Medicare program to the operations, financial condition and financial performance of hospitals and other health care providers, state Medicaid programs nevertheless constitute an important payor source for many hospitals and other health care providers, particularly children's hospitals. These programs often pay hospitals and other health care providers at levels that are substantially below the actual cost of the care provided. Medicaid is jointly funded by states and the federal government, and adverse economic conditions that reduce state revenues or changes to the federal government's methodology for funding state Medicaid programs may result in lower funding levels and/or payment delays. Therefore, increases in the overall proportion of Medicaid patients could have a material adverse impact on the financial condition and operations of hospitals and other health care providers, including the Obligated Group Members.

In December 2011, Texas received federal approval of a waiver under Social Security Act section 1115 that allocates Upper Payment Limit ("UPL") program funding under a new methodology. The 1115 Healthcare Transformation waiver expanded managed care coverage to additional areas of the state through two statewide funding pools worth \$29 billion over five years. An uncompensated care ("UC") pool is intended to reimburse for uncompensated care costs and the Delivery System Reform Incentive Payment ("DSRIP") pool is intended to incentivize hospitals and other providers to transform their service delivery practices. DSRIP payments are intended to improve quality, health status, patient experience, coordination, and cost-effectiveness. Recipients of UC and DSRIP payments will be required to participate in a regional healthcare partnership identifying community needs and responsibility for distribution of funding.

In December 2017, CMS approved a five-year renewal of the Texas 1115 Transformation waiver from October 2017 through September 2022. The renewal ensures the continuation of the UC program pool.

The waiver renewal extended the DSRIP funding pool for four years, through September 30, 2021. DSRIP pool sizes are scheduled to decrease by 20% between 2019 and 2021. DSRIP will no longer be available beginning October 2021. A draft transition plan required by Special Terms and Conditions (“STC’s”) of the waiver describing how the State of Texas will continue to develop its delivery system reform efforts without DSRIP funding has been submitted to CMS. The finalized plan must be submitted by March 31, 2020. The intent of the Texas Health and Human Services Commission (“Texas HHSC”) is to implement a replacement program. However, the pool size, funding mechanism and whether the payments will be state-directed or pass-through payments are unknown.

CMS also required Texas HHSC to submit a revised UC protocol under STC’s for the waiver renewal. The STC’s required a UC protocol that only includes charity costs allowed under a provider’s charity policy. This change alone is expected to reduce the Medical Center’s UC reimbursement by two-thirds through September 2022. After September 2022, a new waiver and/or program(s) will need to be submitted by Texas HHSC to CMS for approval.

Texas HHSC received approval from CMS to implement the new Uniform Hospital Reimbursement Increase Program (“UHRIP”) program for hospital services in April 2017. The Medical Center began receiving UHRIP payments in March 2018. UHRIP is a Medicaid directed payment program operated by Texas HHSC. UHRIP’s purpose is to reduce the Medicaid shortfall of hospitals who serve persons with Medicaid. Eligible hospitals receive a percentage increase paid on every inpatient and outpatient claim submitted to contracted Medicaid managed care organizations. Subsequently, Texas HHSC put forward a plan to reform the UHRIP program. Texas HHSC has conveyed its intention to move the UHRIP funding pool allocation methodology away from the Medicaid shortfall as a part of this reform, but a final allocation method has not been chosen.

The Medical Center funds the state portion of UHRIP and UC payments through Intergovernmental Transfers (“IGT”). To generate funding for the IGT payments, the Medical Center contributes, in the form of a tax payment, to Local Provider Participation Funds (“LPPFs”). It is possible that the Medical Center’s mandatory payment will be greater than the amount of IGT needed to fund its individual supplemental payments.

CMS published a final rule in 2017 that modified how Medicaid DSH payments are calculated by requiring that Medicare and commercial insurance payments be included in the hospital-specific “costs incurred” DSH limit. The Children’s Hospital Association of Texas challenged the final rule in the Federal District Court for the District of Columbia. The District Court invalidated the final rule in March 2018, holding the final rule was inconsistent with the Medicaid Act. DHHS appealed to the Circuit Court of Appeals for the D.C. Circuit, which reinstated the final rule in August 2019. The Circuit Court of Appeals found that the final rule was a proper exercise of DHHS’s authority. The Eighth Circuit Court of Appeals also subsequently found the final rule to be a reasonable exercise of DHHS’s expressly delegated discretion in the Medicaid Act. While litigation regarding the 2017 final rule remains ongoing, including in the Fifth Circuit Court of Appeals, Texas HHSC has proposed rules in response to this litigation that could have a material adverse impact on the financial condition and operations of hospitals and other health care providers, including the Obligated Group Members.

On November 18, 2019, CMS published the Medicaid Fiscal Accountability Rule proposed rules that could impose significant changes on Medicaid supplemental payments and financing arrangements that would limit the availability of some categories of supplemental payments. The proposed rule addresses

policies relating to Medicaid financing, certified public expenditures, intergovernmental transfers, and health care related taxes. CMS cited to the rapid increase in the use of supplemental payments and stated that its intention is to strengthen the fiscal integrity of the Medicaid program and improve transparency in supplemental payment arrangements. The rule also proposes potentially burdensome detailed annual and quarterly reporting requirements relating to supplemental payments. If finalized as proposed, the proposed changes mark a significant departure from the Medicaid program's historical approach to supplemental payments. The proposed rules could significantly impact the Medical Center's participation in the LPPFs, which could reduce or eliminate the ability to draw down UHRIP and UC payments.

#### *Children's Health Insurance Program and STAR Kids*

The Children's Health Insurance Program ("CHIP") is a federally funded insurance program for families that are financially ineligible for Medicaid, but cannot afford commercial health insurance. CMS administers CHIP, but each state creates its own program based upon minimum federal guidelines. CHIP insurance is provided through private health plans contracting with the state. Each state must periodically submit its CHIP plan to CMS for review to determine if it meets the federal requirements. If it does not meet the federal requirements, a state can lose its federal funding for the program.

From time to time, Congress and/or the President may seek to expand, reduce or fail to authorize CHIP. The ACA authorized an extension of the CHIP program through September 30, 2015. MACRA extended the CHIP program through September 30, 2017. President Trump signed a six-year reauthorization of CHIP into law on January 22, 2018. On February 9, 2018, Congress voted to extend CHIP for an additional four years, effectively extending CHIP through 2027.

In Texas, the State of Texas Access Reform ("STAR"), is a Medicaid managed care plan for people of all ages. STAR Kids, which began providing benefits in 2016, is a Texas Medicaid managed care program for children and adults with disabilities that are age 20 or younger. Individuals must be a Texas resident and U.S. Citizen or legal permanent resident. Any adult cost sharing for the Texas CHIP plan includes annual enrollment fees, monthly premiums and co-payments, with varying degrees of financial responsibility depending on the family's income level.

#### *Medicare/Medicaid Conditions of Participation*

Certain health care facilities must comply with standards called "Conditions of Participation" in order to be eligible for Medicare and Medicaid reimbursement. Under the Medicare rules, hospitals accredited by an approving accrediting body, such as The Joint Commission are deemed to meet most of the Conditions of Participation. However, CMS may request that the state agency responsible for licensing hospitals, on behalf of CMS, conduct a "sample validation survey" of a hospital to determine whether it is complying with the Medicare or Medicaid Conditions of Participation. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation could have a material adverse effect on the financial condition of the Obligated Group.

#### *Audits, Fines, Withholds and Enforcement Actions*

The Department of Justice ("DOJ"), the Federal Bureau of Investigation and the Office of the Inspector General ("OIG") of DHHS have been conducting investigations and audits of the billing practices of many health care providers. Violations and alleged violations may be deliberate, but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. Violations carry significant sanctions.

The government periodically conducts widespread investigations and audits, covering various categories of services, or certain accounting or billing practices. The Obligated Group Members may be required to undergo such audits by one or more of these agencies and may be required to make payments to resolve any such audits. It is possible that any such payments may be substantial and could have a material adverse impact on the financial condition or operations of the Obligated Group Members.

In addition, the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) also added provisions that prohibit certain types of manipulative Medicare billing practices. These include improperly coding (for billing purposes) services rendered in order to claim a higher level of reimbursement and billing for the provision of services or items that were not medically necessary. HIPAA also created increases the legal risk of provider billing and increases the risk that a Medicare provider will be the subject of a fraud investigation.

The federal Medicaid Integrity Program was created by the Deficit Reduction Act in 2005. The Medicaid Integrity Program was the first federal program established to combat fraud and abuse in the state Medicaid programs. Congress determined a federal program was necessary due to the substantial variations in state Medicaid enforcement efforts. The Medicaid Integrity Program’s enforcement efforts support existing state Medicaid Fraud Control Units. Federal Medicaid Integrity Contractors (“MICs”) are classified into Review MICs, Audit MICs and Educational MICs. Review MICs perform review audits generally to determine trends and patterns of aberrant Medicaid billing practices through data mining. Audit MICs perform post-payment reviews of individual providers through desk and field audits. The Educational MICs are responsible for developing and carrying out a variety of education activities to increase and improve Medicaid enforcement efforts by state government. Once a Medicaid overpayment is identified, the state has one year to recover or attempt to recover the overpayment from the provider before adjustment is made in the federal payment to the state on account of such overpayment; *provided, however*, in the case of fraud, if the state is unable to recover the overpayment from the provider within the one year period because there has not been a final determination of the amount of the overpayment under an administrative or judicial process (as applicable), including as a result of judgment being under appeal, no adjustment shall be made in the federal payment to the state before the date that is 30 days after the final judgment is made.

Medicare and Medicaid audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare or Medicaid payments to providers pending resolution of the appeals process. The ACA explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud. The ACA also amended certain provisions of the FCA (as defined below) to include retention of overpayments as a false claim. A provider or supplier must report and return an overpayment by the later of 60 days after the overpayment was identified, or the date the corresponding cost report is due, if applicable. The provider or supplier is also required to describe in writing the reason for the overpayment. Overpayments must be reported and returned only if a provider or supplier identifies the overpayment within six years of the date the overpayment was received.

#### *RAC Audits*

CMS has implemented a Recovery Audit Contractor (“RAC”) program on a nationwide basis pursuant to which CMS contracts with private contractors to conduct pre- and post-payment reviews to detect and correct improper payments in the fee-for-service Medicare program. The RACs use their own software and independent knowledge of Medicare to determine areas to review. Once a RAC identifies a potentially improper claim as a result of an audit, it makes an assessment from the provider’s Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. The ACA expanded the RAC program’s scope to include managed Medicare plans and Medicaid claims. CMS also employs contractors to perform post-payment audits of Medicaid claims and identify

overpayments. These programs tend to result in retroactively reduced payment and higher administration costs to hospitals.

#### *Exclusions from Medicare or Medicaid Participation*

The government must exclude from Medicare/Medicaid program participation a health care provider that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a health care provider would be decertified and no program payments can be made. Any exclusion of an Obligated Group Member could have a materially adverse impact on the financial condition or operations of the Obligated Group Members.

#### *Review of Outlier Payments*

In certain cases where patient costs are extraordinarily high, Medicare-participating hospitals may be eligible to receive additional payments. In order to receive an “outlier” payment, costs must exceed a fixed-loss cost threshold amount. The OIG has reviewed Medicare contractor reviews of outlier payments and issued multiple reports regarding outlier payment reconciliation, most recently in September 2017. OIG recommended that CMS ensure Medicare contractors are continuing to take corrective actions previously recommended by the OIG, such as collecting overpayments and returning funds to either Medicare or hospitals; determining whether any cost reports that exceeded the three-year reopening limit may be reopened as a result of hospital fault or fraud; and ensuring Medicare contractors review all cost reports submitted following earlier OIG audit periods and ensure that hospitals whose outlier payments qualified for reconciliation are correctly identified, referred, and reconciled. CMS is reviewing health care providers that are receiving large proportions of their Medicare revenues from outlier payments. Health care providers found to have obtained inappropriately high outlier payments will be subject to further investigation by the CMS Program Integrity Unit and potentially the OIG.

#### *Patient Records and Confidentiality*

HIPAA, as amended by the HITECH Act (defined and discussed below), protects the privacy and security of individually identifiable health information through regulations on Standards for Privacy of Individually Identifiable Health Information (the “*Privacy Rule*”), Security Standards for the Protection of Electronic Protected Health Information (the “*Security Rule*”), Standards for Notification in the Case of Breach of Unsecured Protected Health Information (the “*Breach Notification Rule*”), and Rules for Compliance and Investigations, Impositions of Civil Monetary Penalties, and Procedures for Hearings (the “*Enforcement Rule*”), (the Privacy Rule, the Security Rule, the Breach Notification Rule and the Enforcement Rule are collectively referred to as the “*HIPAA Rules*”).

The HIPAA Rules, developed through successive waves of the administrative rulemaking process, are extensive and complex. Violations of HIPAA can result in civil monetary penalties and criminal penalties. Provisions of the Health Information Technology for Economic and Clinical Health Act (the “*HITECH Act*”) amend HIPAA by (i) increasing the maximum civil monetary penalties for violations of HIPAA, (ii) granting limited enforcement authority of HIPAA to state attorneys general, (iii) extending the reach of HIPAA beyond “covered entities,” to include “business associates” of covered entities, (iv) imposing a breach notification requirement on HIPAA covered entities and business associates,

(v) limiting certain uses and disclosures of individually identifiable health information, (vi) restricting covered entities' marketing communications, and (vii) permitting the imposition of civil monetary penalties for a HIPAA violation even if an entity did not know and would not, by exercising reasonable diligence, have known of a violation. Civil monetary penalties for violations of HIPAA now range to a maximum \$58,490 per violation and/or imprisonment, depending on the violator's degree of intent and the extent of the harm resulting from the violation. The maximum civil monetary penalty for violations of the same HIPAA provision in a calendar year may be assessed at \$1.754 million. A state attorney general may bring civil action to protect the interests of one or more residents of the state who has been or is threatened or adversely affected by any person who violates HIPAA. A state attorney general may enjoin further violations by a defendant or obtain damages up to \$25,000, in addition to an award of attorney fees. The HITECH Act also requires the DHHS Office for Civil Rights ("OCR") to conduct periodic audits of covered entity and business associate compliance with the HIPAA Rules.

The Breach Notification Rule requires the notification of each individual whose unsecured protected health information has been, or is reasonably believed to have been accessed, acquired, used, or disclosed as a result of such breach. If a breach involves more than 500 residents prominent media outlets must be notified. In addition, the Secretary of DHHS must be notified promptly following the discovery of a breach involving 500 or more individuals and annually for breaches involving fewer than 500 individuals. The reporting of such breaches may lead to an investigation by OCR during which OCR could discover other HIPAA violations that may result in fines other penalties.

In recent years, OCR has enhanced its enforcement efforts that include civil monetary penalties and settlement agreements with some related payments reaching into the multimillion dollar range. Further, OCR is initiating an auditing process to evaluate compliance with HIPAA. It is expected that the audits will expose many health care providers and their vendors to enforcement actions under HIPAA.

#### *Security Breaches and Unauthorized Releases of Personal Information*

Federal, state and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. In addition to the data breach disclosure requirements of HIPAA, many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

#### *Civil and Criminal Fraud and Abuse Laws and Enforcement*

The federal Civil Monetary Penalties Law (the "CMP Law") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. For example, penalties may be imposed for the knowing presentation of claims that are (i) incorrectly coded for payment, (ii) for services that are known to be medically unnecessary, (iii) for services furnished by an excluded party, or (iv) otherwise false. An entity that offers remuneration to an individual that the entity knows is likely to induce the individual to receive care from a particular provider may also be fined. Under the ACA, Congress amended the CMP Law to authorize civil monetary penalties for a number of additional activities,

including (i) knowingly making or using a false record or statement material to a false or fraudulent claim for payment, (ii) failing to grant the OIG timely access for audits, investigations, or evaluations, and (iii) failing to report and return a known overpayment within statutory time limits. The CMP Law authorizes imposition of civil monetary penalties ranging from \$20,000 to \$100,000 for each item or service improperly claimed and each instance of prohibited conduct, plus three times the amount of damages sustained by the government. Health care providers may be found liable under the CMP Law even when they did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider “should have known” that the claim was false, and ignorance of the Medicare regulations is not a defense.

### *False Claims Act*

The federal False Claims Act (the “FCA”) makes it illegal to knowingly submit or present a false, fictitious or fraudulent claim to the federal government (e.g., the Medicare or Medicaid programs) for payment or approval for payment for which the federal government provides, or reimburses at least some portion of the requested money or property. Because the term “knowingly” is defined broadly under the law to include not only actual knowledge but also deliberate ignorance or reckless disregard of the facts, the FCA can be used to punish a wide range of conduct. The ACA amended the FCA by expanding the number of activities that are subject to civil monetary penalties to include, among other things, failure to report and return known overpayments within statutory limits. FCA investigations and cases have become common in the health care field and may cover a range of activity from submission of intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. The FCA provides for potentially severe penalties. In June 2016, the DOJ issued a rule that more than doubled civil monetary penalties under the FCA. These increases took effect on August 1, 2016 and apply to FCA violations after November 2, 2015. The penalty amounts are adjusted no later than January 15 of each year to reflect changes in the inflation rate. As of the date of this Official Statement, any person who acts in violation of the FCA is liable for a civil penalty ranging from \$11,463 to \$22,927 per claim, plus three times the amount of damages sustained by the government. As a result, violation or alleged violation of the FCA frequently results in settlements that require multi-million dollar payments and costly corporate integrity agreements.

The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the federal government or recover independently if the government does not participate. The FCA has become one of the federal government’s primary weapons against health care fraud and suspected fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse effect on a hospital and other health care providers. Some regulators and whistleblowers have asserted that claims submitted to governmental payors that do not comply fully with regulations or guidelines come within the scope of the FCA.

In June 2016, the United States Supreme Court announced its decision in *Universal Health Services, Inc. v. United States ex rel. Escobar*, No. 15-7 (I.S. June 16, 2016). Prior to *Escobar*, lower courts had split on the issue of whether the FCA extended to so-called “implied certification” of compliance with laws, and whether such compliance was limited to express conditions of payment or extended to conditions of participation. The United States Supreme Court affirmed the theory of “implied certification” and rejected the distinction between conditions of payment and conditions of participation for these purposes, ruling that the relevant inquiry is whether the alleged noncompliance, if known to the government, would have in fact been material to the government’s determination as to whether to pay the claim. There is considerable uncertainty as to the application of the *Escobar* holding, but depending on how it is interpreted by the lower courts, it could result in an expanded scope of potential FCA liability for noncompliance with applicable laws, regulations and subregulatory guidance.



Under the ACA, the FCA has been expanded to include overpayments that are discovered by a health care provider and are not promptly refunded to the applicable federal health care program, even if the claims relating to the overpayment were initially submitted without any knowledge that they were false. The 2016 Medicare Overpayments Final Rule, which took effect on March 14, 2016, requires that providers report and return identified overpayments by the later of 60 days after identification, or the date the corresponding cost report is due, if applicable. If the overpayment is not so reported and returned, it becomes an “obligation” under the FCA. This expansion of the FCA exposes hospitals and other health care providers to liability under the FCA for a considerably broader range of claims than in the past. CMS clarified that the 60-day timeframe for report and return begins when either reasonable diligence is completed (including determination of the overpayment amount) or on the day the person received credible information of a potential overpayment (if the person failed to conduct reasonable diligence and the person in fact received an overpayment). Failure to report and return overpayments as described herein may result in false claims liability. That same final rule also established a six-year lookback period, meaning overpayments must be reported and returned only if a person identifies the overpayment within six years of the date the overpayment was received.

#### *Medicare/Medicaid Anti-Kickback Laws*

The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral of a patient (or to induce a referral) or the ordering or recommending of the purchase (or lease) of any item or service that is paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions. The ACA amended the Anti-Kickback Law to provide explicitly that a claim that includes items or services resulting from a violation of the Anti-Kickback Law constitutes a false or fraudulent claim for purposes of the FCA. Another amendment provides that an Anti-Kickback Law violation may be established without showing that an individual knew of the statute’s proscriptions or acted with specific intent to violate the Anti-Kickback Law, but only that the conduct was generally unlawful. The new standards could significantly expand criminal and civil fraud exposure for transactions and arrangements where there is no intent to violate the Anti-Kickback Law.

The Anti-Kickback Law can be prosecuted either criminally or civilly. If the government proceeds criminally, a violation of the Anti-Kickback Law is a felony and may be punished by a criminal fine of up to \$100,000 for each violation or imprisonment, however, under 18 U.S.C. Section 3571, this fine may be increased to \$250,000 for individuals and \$500,000 for organizations. Civil money penalties may include fines of up to \$100,000 per violation and damages of up to three times the total amount of the remuneration and/or exclusion from participation in Medicare and Medicaid.

Increasingly, the federal government and qui tam relators are prosecuting violations of the Anti-Kickback Law under the FCA, based on the argument that claims resulting from an illegal kickback arrangement are also false claims for FCA purposes. Any claims for items or services that violate the federal Anti-Kickback Statute are also considered false claims for purposes of the FCA. See the discussion under the subheading “False Claims Act” above.

Courts have interpreted this law broadly and held that the Anti-Kickback Law is violated if just one purpose of the remuneration is to generate or induce referrals, even if there are other lawful purposes. Federal regulations describe certain arrangements (i.e., safe harbors) that are exempt from prosecution under the federal Anti-Kickback Law. Because the law is broadly applied and safe harbors are narrowly drawn, there can be no assurance that an Obligated Group Member will not be found in violation of the

federal Anti-Kickback Law in the future. The IRS has taken the position that hospitals that are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status.

#### *Medicare/Medicaid Anti-Referral Laws*

The Ethics in Patient Referrals Act of 1989, as amended in the Omnibus Budget Reconciliation Act of 1993 and as subsequently amended (collectively, the “*Stark Law*”), prohibits the referral of Medicare patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiology and other imaging services) to entities with which the referring physician (or an immediate family member) has a financial relationship unless that relationship fits within an exception to the Stark Law. It also prohibits a hospital, or other provider, furnishing the designated health services from billing Medicare, or any other government health care program for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark Law violation. If certain substantive and technical requirements of an applicable exception are not satisfied, an ordinary business arrangement or contract between hospitals and physicians can violate the Stark Law, thus triggering the prohibition on referrals and billing. All providers of designated health services with physician relationships have some exposure to liability under the Stark Law.

Penalties for violation of the Stark Law include denial of payment, recoupment, refunds of amounts paid in violation of the law, exclusion from the Medicare or Medicaid program, and substantial civil monetary penalties. Violation of the Stark Law may also provide the basis for a claim under the FCA.

Medicare may deny payment for all services performed by a provider based on a prohibited referral, and a hospital that has billed for prohibited services is obligated to refund the amounts collected from the Medicare program or to make a voluntary self-disclosure to CMS under its Self-Referral Disclosure Protocol (discussed below). As a result, even relatively minor, technical violations of the Stark Law may trigger substantial refund obligations. Moreover, where there are “knowing” violations of the Stark Law, the government may seek substantial civil monetary penalties under FCA, and in some cases, a hospital may be excluded from the Medicare and Medicaid programs. Potential repayments to CMS, settlements, fines or exclusion for a Stark Law violation or alleged violation could have a material adverse effect on a hospital and other health care providers. Increasingly, the federal government is prosecuting Stark Law violations under the FCA, based on the argument that claims resulting from an illegal referral arrangement are also false claims for FCA purposes. *See* the discussion under the subheading “False Claims Act” above. The DOJ and others have asserted that Medicaid referrals in which a non-expected financial arrangement exists under the Stark Law also create FCA exposure, and have had some success with these arguments in certain courts. CMS has established a voluntary Self-Referral Disclosure Protocol under which hospitals and other entities may report Stark Law violations and seek a reduction in potential refund obligations. The Obligated Group Members may make self-disclosures under this program as appropriate from time to time. Any submission pursuant to the self-disclosure program does not waive or limit the ability of the OIG or DOJ to seek or prosecute violations of the Anti-Kickback Law or impose civil monetary penalties.

#### *State “Anti-Kickback,” “Fraud” and “False Claims” Laws*

Hospital providers in Texas also are subject to a variety of state laws including the Texas Non-Solicitation of Patients Act (“*TSPA*”), which is similar to the federal anti-kickback law; and the Texas Medicaid Fraud Prevention Act, the Texas Medicaid False Claim Act, and the Texas Insurance Claim Fraud Act, which impose penalties for wrongfully charging for services under the Medicaid program or services covered by private health insurance. These prohibitions while similar in public policy and scope to the federal laws have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes.

## *EMTALA*

The Emergency Medical Treatment and Labor Act (“*EMTALA*”) is a federal civil statute that requires Medicare-participating hospitals with an emergency department to conduct a medical screening examination to determine the presence or absence of an emergency medical condition and to provide treatment sufficient to stabilize such emergency medical condition before discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties of up to \$106,965 per offense and termination of its Medicare provider agreement. EMTALA also provides for a limited private right of action against hospitals, and as a result a hospital could be subject to claims for personal injury where an individual suffers harm as result of an EMTALA violation.

Over the last few years, the federal government has increased its enforcement of EMTALA. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs, as well as civil and criminal penalties. In addition, a hospital may be held liable to a patient who suffered injuries as a result of a violation of EMTALA and may be liable to the receiving hospital for financial losses suffered as a result of a transfer in violation of EMTALA. Substantial failure of an Obligated Group Member to meet its responsibilities under EMTALA could materially adversely affect the financial condition of the Obligated Group. Outpatient facilities that are included as part of a hospital by virtue of a provider-based status designation are required to adhere to EMTALA’s requirements, regardless of whether they are located on or away from the hospital’s main campus.

Any sanctions imposed as a result of an EMTALA violation could have a material adverse effect on the operations or financial condition of the Obligated Group.

### *Administrative Enforcement*

Administrative regulations may require less proof of a violation than do criminal laws and thus, health care providers may have a higher risk of imposition of monetary penalties as a result of an administrative enforcement action.

### *Enforcement Activity*

Enforcement activity against health care providers has increased and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation or other enforcement action regarding the health care fraud laws mentioned above.

Enforcement actions may pertain to not only deliberate violations, but also frequently relate to violations resulting from actions of which management is unaware, from mistakes or from circumstances where the individual participants do not know that their conduct is in violation of law. Enforcement actions may extend to conduct that occurred in the past. The government may seek a wide array of penalties, including withholding essential payments under the Medicare or Medicaid programs or exclusion from those programs.

Enforcement authorities are often in a position to compel settlements by providers charged with or being investigated for false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement

agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described below and therefore, penalties or settlement amounts often are compounded. Generally, these risks are not covered by insurance. Enforcement actions may involve multiple hospitals in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital could have materially adverse impact on the financial condition or operations of the Obligated Group Members.

#### *Increased Enforcement Affecting Academic Research*

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office for Human Research Protections, one of the agencies with the responsibility for monitoring federally funded research. The Food and Drug Administration (“FDA”) also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. These agencies’ enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs.

#### **Additional State Regulation**

The ACA imposes significant obligations on states related to health care insurance. Prior to the passage of the ACA, many states increased regulations related to the managed care industry. State legislatures cited their right and obligation to regulate and oversee health care insurance and enacted sweeping measures that aimed to protect consumers and, in some cases, providers. For example, a number of states enacted laws mandating a minimum of 48-hour hospital stays for women after delivery; laws prohibiting “gag clauses” (contract provisions that prohibit providers from discussing various issues with their patients); laws defining “emergencies,” which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician. It is unclear how the increased federal oversight of state health care may affect the probability of future increased state oversight or impact the Obligated Group.

Due to this increased oversight, the Obligated Group could become subject to a variety of state health care laws and regulations affecting health care providers. In addition, the Obligated Group could be subject to other state laws and regulations.

**PART III**

**APPENDIX A**

**COOK CHILDREN'S HEALTH SYSTEM**

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## ORGANIZATIONAL STRUCTURE AND HISTORY

Cook Children's Health Care System (the "**Health System**"), through controlled affiliates, operates a vertically integrated pediatric healthcare delivery system located in Fort Worth, Texas. The delivery system includes a full-service pediatric hospital and outpatient ambulatory care facilities, a multi-specialty physician group of primary care pediatricians and pediatric subspecialists, a home health care company, a health maintenance organization, and several other companies that enable the Health System to fulfill its mission. The hospital accounted for more than 86% of pediatric hospital admissions in its six-county primary service area (described herein) in 2018.

The Health System, controlled affiliates and their subsidiaries, and W.I. Cook Foundation, Inc. d/b/a Cook Children's Health Foundation (the "**Foundation**") are collectively referred to herein as "**Cook Children's**."

### The Obligated Group

The Health System, the Foundation, and two of the Health System's controlled affiliates – Cook Children's Medical Center (the "**Medical Center**") and Cook Children's Physician Network (the "**Physician Network**") – are jointly and severally obligated under the Master Indenture to pay the Series 2020 Note and are referred to herein as the "**Obligated Group**." See also APPENDIX C – "SUMMARY OF MASTER INDENTURE, TRUST INDENTURE, AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS – The Master Indenture – Membership in the Obligated Group." The obligations of the Obligated Group members to pay the Series 2020 Note are subject to limitations described under "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2020 BONDS – Security for the Series 2020 Bonds" in PART I of this Official Statement. In the fiscal year ended September 30, 2019, the Obligated Group accounted for approximately 73% of total net revenue, 71% of total expenses and 93% of total assets of Cook Children's. See the consolidating schedule in APPENDIX B.

**Foundation.** The Foundation is a Texas non-profit corporation, exempt from federal income taxation as a public charity under Section 501(c)(3) and Section 509(a)(1) of the Internal Revenue Code of 1986, as amended (the "**Code**"), and established to solicit, receive, and manage contributions for the benefit of the Medical Center and other affiliated entities. The Foundation manages the investment of donations and income from operations, as well as mineral interest holdings, and is governed by a community board of trustees, is the sole corporate member of and appoints the directors of the Health System.

**Health System.** The Health System is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code. The Foundation is its sole member. The Health System provides administrative and support functions to all of the Cook Children's entities. These functions include government relations, managed care contracting services, quality management, education, internal audit, finance, payroll, telecommunications, insurance, information services, human resources, employee benefits, occupational health, legal, grants and research administration, credentialing, governmental reimbursement, revenue cycle, real estate, decision support, public relations, and marketing. The Health System is the sole corporate member of the Medical Center, the Physician Network, Cook Children's Home Health ("**Home Health**"), and Cook Children's Health Plan (the "**Health Plan**"), owns all of the common stock of Cook Children's Indemnity Company (the "**Indemnity Company**"), and appoints the directors of such entities.

**Medical Center.** The Medical Center is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code. The Medical Center operates a 444 licensed bed children's hospital in Fort Worth, Texas (the "**Hospital**"). The Medical Center provides inpatient and outpatient surgery services and emergency care, full service neonatal intensive care, and pediatric intensive care services to pediatric patients at the Hospital. Additionally, the Medical Center owns a controlling 61% interest in Cook Children's Surgery Center, LLC – which provides urgent care, diagnostic imaging, and outpatient pediatric surgical services (the "**Surgery Center**") in Hurst, Texas – and owns a controlling 54% interest in The Center for Pediatric Surgery, Ltd., which operates a surgery center in Plano, Texas.

**Physician Network.** The Physician Network is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code. The Physician Network operates a multi-specialty physician network serving Fort Worth, Texas, and surrounding communities. The Physician Network was created to employ primary care pediatricians and pediatric subspecialists in support of the Hospital. As of September 30, 2019, the Physician Network employed 427 physicians, 130 of which are in primary care practice and 297 of which are in pediatric subspecialties.

## History and Development

The Medical Center was formed in 1985 as the result of an agreement to combine the hospital facilities of Cook Children's Hospital and Fort Worth Children's Hospital.

Cook Children's Hospital opened as a general acute care hospital with 55 beds on January 29, 1929, as W.I. Cook Memorial Hospital. Mrs. Missouri Matilda Nail Cook dedicated oil royalties from the Cook Ranch to build the hospital's facilities and support its operations. In 1952, when a polio epidemic was spreading throughout the United States, the hospital's board of trustees voted to expand the facility to 72 beds and changed the hospital's mission to care exclusively for the needs of children. The facility was renamed Cook Children's Hospital and continued to operate as an independent hospital until its combination with Fort Worth Children's Hospital.

Fort Worth Children's Hospital began with the organization of the Fort Worth Free Baby Clinic in 1918. Donations provided the clinic with its building and furnishings and supported its operations. In 1961, Fort Worth Children's Hospital moved from its original site to a new facility. Fort Worth Children's Hospital continued to operate its facility as an independent hospital until its combination with Cook Children's Hospital.

In 1985, an agreement to combine the two hospitals was approved, and Cook-Fort Worth Children's Medical Center was formed. Construction of the Medical Center's main 181-bed facility began in 1987 and was completed in May 1989. Upon completion of the 181-bed combined facility, the two existing hospitals were closed. The name of the hospital facility was shortened to Cook Children's Medical Center in 1995.

In 1995, the board of trustees of the Medical Center approved a corporate restructuring which was the genesis of the current integrated delivery system. The Foundation was formed to serve as the parent and the sole controlling member of the Health System, which was formed to manage the Medical Center, the Physician Network and other Cook Children's affiliates. The Health System later organized the Health Plan, Home Health, and the Indemnity Company.

Steady increases in volume necessitated renovation and expansion of the Hospital emergency room, pediatric intensive care, and surgery areas. The Medical Center added a specialty clinic building and south extension on the Hospital campus in 1999. The Medical Center also opened the Northeast Center in Hurst, Texas in 1999, containing physician offices and rehabilitation services, to provide patients in northeast Tarrant County with easier access to treatment. Later the same year, the Medical Center opened the Southwest Center in southwest Fort Worth containing physician offices. A child development center, operated jointly with Harris Methodist Fort Worth Hospital, and a parking garage opened on the Medical Center campus in 2001. In 2003, a four-floor patient pavilion and expanded critical care areas were opened at the Hospital. In 2004, a fracture clinic, urgent care center, and heliport were added to the Hospital. In late 2005, the Hospital added heart catheterization and surgery facilities.

In 2009, the Medical Center began an expansion project that added a new six-story patient tower on the north side of the Hospital campus (the "**North Tower**") and a five-story medical office building (the "**MOB**") connected to the North Tower. The North Tower was completed in 2011 and included 105 new beds along with a new cancer center, food court and new family areas that included a parent business center, patient library, patient classrooms, and an indoor/outdoor playground. The MOB was completed in 2012 and included new office space for the hospital-based physician clinics and new outpatient radiology services, dialysis services, infusion services and new ambulatory surgical center. The expansion also included a significant upgrade to the central plant and added 1,200 additional parking spaces. As of September 30, 2019, the Hospital had 444 licensed beds, of which 391 were in service.

In 2014, the Medical Center began construction on a six-story, 300,000-square foot tower on the south side of the campus (the "**South Tower**"), along with the addition of a new facilities plant and renovation of 100,000 square feet of existing Medical Center space. The South Tower project was completed in 2016 and included a new emergency department, surgical services area, cardiovascular operating rooms, cardiovascular intensive care unit, clinical laboratory, sterile processing center, behavioral unit, and one floor of shelled space for future inpatient bed growth.

In January 2018, through a corporate membership transfer, the Medical Center became the sole member of the Child Study Center ("**CSC**"). Simultaneously with this transfer, the Child Study Center Foundation merged into the Foundation with the Foundation as the successor entity of the merger. Founded in 1962, CSC is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code, governed by a volunteer board of directors, and located near downtown Fort Worth in a multi-purpose facility. CSC provides the



highest quality diagnosis, treatment, and education to children with complex developmental and behavioral disabilities to help them achieve their full potential.

In January 2018, the Health System acquired, with operating cash, a 190,000-square foot office building in west Fort Worth. The office building now houses the Health Plan's operations and many shared services employees associated with the Health System.

### Awards and Recognitions

Cook Children's consistently receives a variety of national and local awards, having received the following recognition, among others:

- **The Joint Commission's Gold Seal of Approval:** recognizing Cook Children's commitment to national quality and safety standards (the Medical Center, Cook Children's Behavioral Health, and Home Health);
- **Level II Trauma Center:** the Hospital has been verified as a Level II Trauma Center by the American College of Surgeons;
- **America's Best Children's Hospital:** ranked as one of America's Best Children's Hospital by *US News & World Report* for cardiology, heart surgery, orthopedics and neurology and neurosurgery;
- **Healthcare Most Wired:** Cook Children's recognized for the seventh straight year, demonstrating its efforts to maximize the capabilities of information technology to improve quality care and patient safety;
- **Global Nexus Award:** awarded by Fort Worth Sister Cities honoring businesses that are globally connected and represent their community to the world creating commerce and a healthier community for all;
- **Be the Match Center of Excellence:** recognizing Cook Children's National Marrow Donor Program; and
- **20 Most Beautiful Hospitals in America:** recognition received from Soliant.

### Other Affiliates

In addition to the Obligated Group, Cook Children's includes the following affiliates and operations:

**Health Plan.** The Health Plan is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code. The Health Plan was organized in 1998 to participate in state and federally funded insurance programs and provide insurance coverage to eligible children in the North Texas area following the decision by the State of Texas (the "**State**") to establish the Texas Children's Health Insurance Program ("**CHIP**"). The Health System is the sole corporate member of the Health Plan, and in accordance with the State's insurance program, guarantees the obligations of the Health Plan.

In 1999, the Health Plan entered into a contract with the Texas Health and Human Services Commission ("**HHSC**") to provide coverage for children enrolled in the CHIP program in six North Texas counties. The Health Plan began enrolling CHIP beneficiaries in June 2000. The State later implemented Medicaid managed care, known as the State of Texas Access Reform ("**STAR**"), in the same service area as the CHIP program. As a result, the Health Plan was awarded an at-risk contract with the State in 2005 to serve both CHIP and STAR clients. In 2016, the Health Plan entered into a contract with HHSC to provide coverage for children enrolled in the STAR Kids program. STAR Kids is a new Texas Medicaid managed care program for children and adults with disabilities that are age 20 or younger.

As of September 30, 2019, the Health Plan provided coverage to approximately 133,000 members enrolled in these three and other related programs. The Health Plan has contracted with 3,665 providers in the service area to render care to its CHIP and STAR plan members. In fiscal year 2019, Cook Children's derived approximately 23% of its total revenue from the Health Plan after consolidation, and approximately 17.7% of admissions to the Hospital were members of the Health Plan. *The Health Plan is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Home Health.** In 1993, the Medical Center established Home Health as a partnership with two independent third-party corporations. The partnerships were dissolved, and since 2001 Home Health has operated as a separate Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code, with the Health System as its sole corporate member. Home Health is designed to be an integral part of the management of patient care and works closely with the Physician Network and the Medical Center. Services are

provided through seven distinct operating divisions: Private Duty Nursing, Skilled Nursing, Rehabilitative Therapy, Equipment and Supplies, Orthotics & Prosthetics, Infusion Drug Therapy, and Specialty Pharmacy, including biopharmaceuticals. *Home Health is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Health Services.** Cook Children's Health Services, Inc. ("**Health Services**") was incorporated in 2011 as a Texas for-profit corporation. The principal activity of Health Services is to operate as a group purchasing organization for physician practices. Health Services is a wholly-owned subsidiary of the Health System. *Health Services is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Indemnity Company.** The Indemnity Company was incorporated in 2002 under the laws of the Cayman Islands. The principal activity of the Indemnity Company is providing medical malpractice insurance for the Medical Center and the Physician Network. The Indemnity Company is wholly-owned by the Health System. *The Indemnity Company is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Rosedale Office Building.** Rosedale Office Building, Inc. (the "**ROB**") was incorporated in 2012 as a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(2) of the Code. There is no corporate member, however, the ROB board is nominated by the Trusteeship Committee of the Foundation and a majority of the ROB board must also be trustees of the Foundation. The principal activity of the ROB is to hold title to real and personal property that is used in association with the mission of the Foundation. *The ROB is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Cook Children's Child Study Center.** CSC is a Texas non-profit corporation, exempt from federal income taxation under Section 501(c)(3) of the Code. CSC is organized primarily to provide diagnosis, treatment, and education to children with complex developmental and behavioral disabilities. *CSC is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Cook Children's Health Enterprises.** Cook Children's Health Enterprises ("**Health Enterprises**") was incorporated in 2019 as a Texas non-profit corporation and is exempt from federal income taxation under Section 501(c)(3) of the Code. The Health System is its sole corporate member. Health Enterprises was created to hold all aircraft assets (helicopter and fixed-wing) owned by, and used in, Cook Children's operations. As of September 30, 2019, no aircraft assets have been transferred into Health Enterprises. *Health Enterprises is not a member of the Obligated Group and, as a result, has no liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

**Other Affiliated Entities.** In 2007, the Medical Center, along with Nueterra Equity Partners LLC ("**Nueterra**") and certain physicians, acquired an ownership interest in Cook Children's Surgery Center, LLC (formerly known as Cook Children's Northeast Hospital, LLC) ("**Hurst**"), a Texas limited liability company that is not exempt from federal, state or local taxation, to develop and operate the Surgery Center, located in Hurst, Texas. The land and building comprising the Surgery Center is owned by the Medical Center and leased to Hurst. The Surgery Center was a three-bed licensed hospital, providing pediatric surgery services, radiology services, and both emergency and urgent care services. In conjunction with the formation of Hurst, the Medical Center sold certain fixtures, equipment and other assets to Hurst, leased the Surgery Center to Hurst, and authorized Hurst to use the "Cook Children's" name. In 2018, the Center for Medicare and Medicaid Services changed its accreditation requirements for hospitals. As a result, the Surgery Center no longer met the definition of a hospital and converted to an ambulatory surgery center licensure model and continues to provide outpatient pediatric surgical services. The joint venture now operates under the business name "Cook Children's Surgery Center." Radiology and urgent care service lines continue to operate under the licensure of the Medical Center. Emergency services were discontinued at this location. The Medical Center has a 61% equity interest in Hurst.

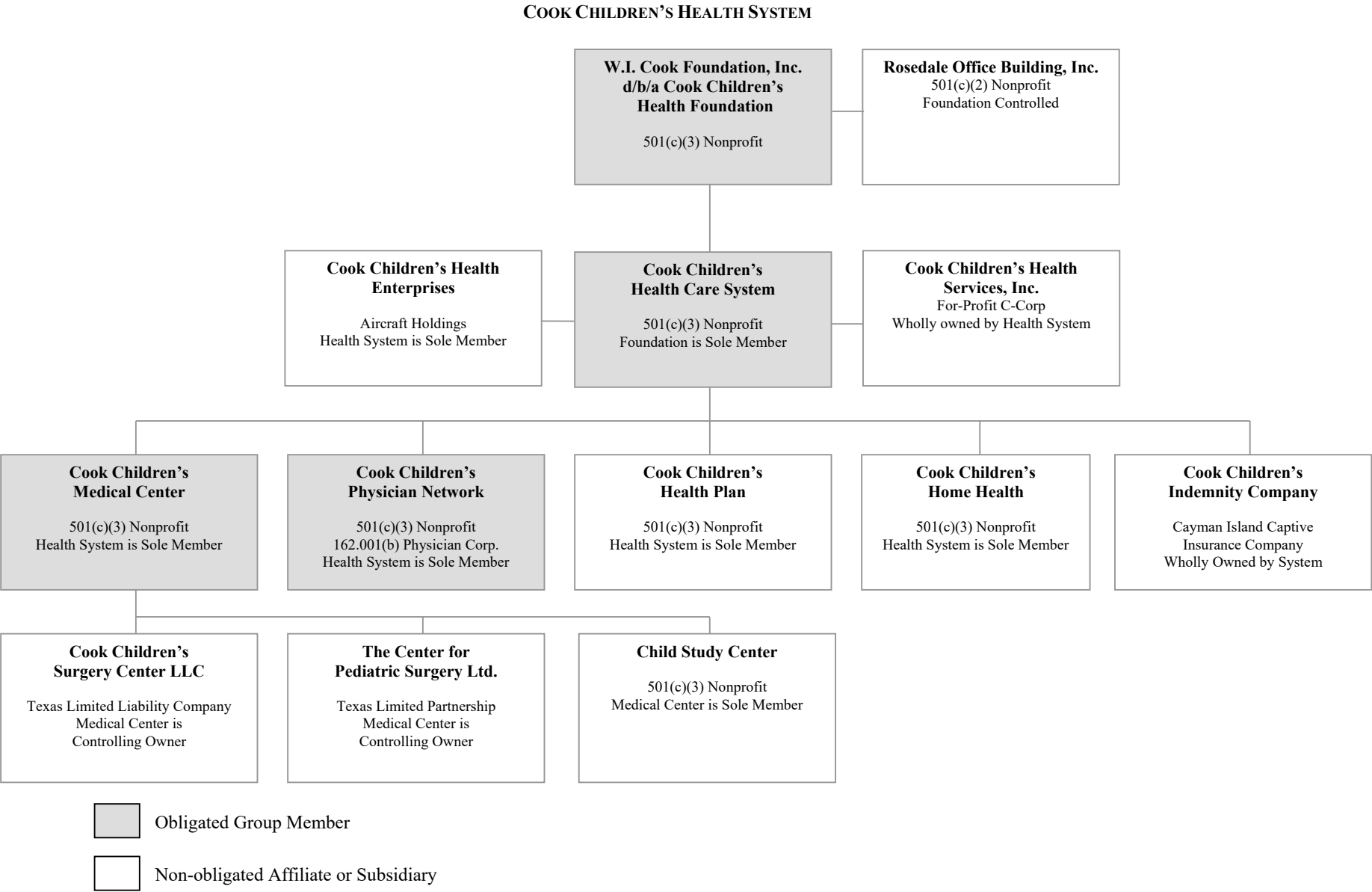
In 2008, the Medical Center purchased a majority ownership in The Center for Pediatric Surgery, Ltd., a Texas limited partnership ("**Plano**"), and its general partner, CPS Physicians, L.L.C. ("**CPS**"). Neither CPS nor Plano are exempt from federal, state or local taxation. Plano owns and operates a pediatric surgery center located in Plano, Texas. The minority owners of Plano are Nueterra and certain physicians. The Medical Center owns a 54% equity interest in Plano and has authorized the facility to use the "Cook Children's" name.

These two affiliated entities combined represent less than 1% of Cook Children's total revenue, expenses and assets, after adjustment for minority interests for the fiscal year ended September 30, 2019. *Neither Hurst nor Plano is a member of the Obligated Group and, as a result, neither of them has any liability or obligation with respect to the payment of the Series 2020 Bonds or the Series 2020 Note.*

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Organizational Structure

The following diagram illustrates Cook Children’s corporate structure. No entity other than the Obligated Group members has any liability with respect to the Series 2020 Bonds or Series 2020 Note.



## GOVERNANCE AND MANAGEMENT

### Boards of Trustees

The business and affairs of each Obligated Group member are subject to the overall management and direction of its board of trustees, subject to certain powers reserved to its sole corporate member.

**Foundation.** The Foundation's board of trustees currently includes 31 members. All trustees are required to have an interest in child health care, willingness for (and experience in) volunteer service, and leadership skills. The trustees are elected by the Foundation board to four-year terms or may be appointed to fill a vacancy on the Foundation board. Terms are staggered, so that the terms of one quarter of the trustees expire each year in June. The trustees may not serve more than two consecutive full terms (totaling eight years); however, a trustee is eligible for re-election and further service after an absence from the Foundation board for one or more years. Officers of the Foundation board include a Chairman, Vice Chairman, and Secretary/Treasurer. The current members and officers of the Foundation board are as follows:

#### FOUNDATION BOARD OF TRUSTEES

<u>Name and Office</u>	<u>Total Years of Service</u>	<u>Occupation</u>	<u>Term Expires</u>
Jerry R. Conatser, Chairman	3	Construction/Land Development, Retired	2020
R. Russell Morton, Vice Chairman	2	Finance Executive, Retired	2021
Brian C. Crumley, Secretary/Treasurer	4	Investments	2023
Larry G. Autrey	3	Public Accounting	2020
Ashli Blumenfeld	3	Marketing	2020
Teresa P. Brownlie	4	Community Volunteer	2023
Carie G. Burnette	2	Community Volunteer	2021
Lezlie Davis	10	Community Volunteer	2021
Michael R. Dike	5	Business Owner, Construction	2022
James R. Dunaway, Jr.	12	Engineer, Retired	2023
Richard W. Dyess	4	President, Electronic Supply Company	2023
Rosalind Evans	5	Certified Public Accountant	2022
Kathryn M. Farmer	5	Executive, Transportation/Railroad	2022
Jay L. Fierke, MD	5	Physician, Retired	2022
Kent A. Horst	6	Finance	2021
James M. Johnson	3	Land Development	2020
R. Kyle Kight	2	Wealth Management	2022
W.M. Lawhon	8	Certified Public Accountant	2023
Andrew P. Lombardi	1	Attorney	2022
G. Malcolm Loudon	20	Oil & Gas/Land Development, Retired	2021
Roger P. Marcincuk, Jr.	2	Investments	2021
Ryan T. Matthews	6	Real Estate	2021
Brian C. Newby	9	Attorney	2022
Michael R. Pavell	8	Banking	2023
Peter L. Philpott	7	Investments	2020
Cynthia R. Prince	3	Community Volunteer	2020
William J. Rattikin, III	1	President, Title Insurance	2023
Andrew J. Rosell	4	Attorney	2023
Rickie G. Sorenson	2	Attorney	2021
Rebecca M. Stupfel	6	Community Volunteer	2021
James E. Webb	9	Attorney, Retired	2022

**Health System.** The board of trustees of the Health System currently includes 22 members. Each trustee is appointed by the Foundation board and serves a one-year term that expires in June. The Foundation board fills any vacancies which may occur. All trustees are required to have an interest in child health care, willingness for volunteer service, and leadership skills. Officers of the Health System board include a Chairman, Vice Chairman, and Secretary/Treasurer. The current members and officers of the Health System board of trustees are as follows:

#### HEALTH SYSTEM BOARD OF TRUSTEES

<u>Name and Office</u>	<u>Total Years of Service</u>	<u>Occupation</u>
Jerry R. Conatser, Chairman	5	Construction/Land Development, Retired
Matthew V. Dzurik, MD, Vice Chairman	5	Physician
Brian C. Crumley, Secretary/Treasurer	3	Investments
Samson Cantu, MD	2	Physician
Matthew B. Carroll, MD	4	Physician
Jeffrey H. Conner	4	Banking
Michael R. Dike	1	Business Owner, Construction
James R. Dunaway, Jr.	12	Engineer, Retired
Richard W. Dyess	1	President, Electronic Supply Company
Gavin F. Fine, MD	1	Physician
Jose L. Iglesias, MD	3	Physician
W.M. Lawhon	6	Certified Public Accountant
Saleem I. Malik, MD	3	Physician
R. Russell Morton	1	Finance Executive, Retired
Jonathan H. NedreLOW, MD	6	Physician
Brian C. Newby	4	Attorney
Lindsay D. Newton, MD	3	Physician
Alice W. Phillips, MD	2	Physician
Peter L. Philpott	9	Investments
Billie R. Pugh, Jr., MD	3	Retired, Physician
Andrew J. Rosell	2	Attorney
James E. Webb	7	Retired, Attorney

**Potential Conflicts of Interest.** From time to time, Cook Children’s entities may enter into contracts or arms-length transactions for the purchase of equipment, supplies, or services from organizations with which members of Cook Children’s boards are affiliated. One Investment Committee board member is the spouse of an employee of Hilltop Securities Inc., the financial advisor to Cook Children’s in connection with the issuance of the Series 2020 Bonds. It is the opinion of Cook Children’s management that this relationship does not present any material conflict of interest.

#### Management

**Rick W. Merrill (59) – President and Chief Executive Officer of the Health System and President and Chief Executive Officer of the Foundation.** Rick W. Merrill was appointed to serve as President and Chief Executive Officer of the Health System and the Foundation in August 2007. As Chief Executive Officer, Mr. Merrill directs and coordinates all of the administrative responsibilities for the 10 entities that comprise Cook Children’s and is responsible for the attainment of Cook Children’s goals, reporting to and under the direction of the Foundation’s board of trustees. Mr. Merrill previously served as President and Chief Executive Officer of Driscoll Children’s Hospital in Corpus Christi, Texas, from October 1999 through 2007. Prior to assuming those positions, Mr. Merrill served as the Administrator and Chief Operating Officer for Medical City Dallas Hospital, Senior Executive Vice President of Hillcrest Health System in Waco, Texas and Senior Vice President of Operations at University Medical Center in Lubbock, Texas. Mr. Merrill received a BS from Texas Tech University in 1982 and an MS in Health Care Administration in 1984 from Trinity University in San Antonio, Texas.

**Stephen W. Kimmel (58) – Executive Vice President, System Finance.** Since joining Cook Children’s in 2014, Mr. Kimmel has served as Chief Financial Officer of the Health System. He was promoted to the position of Executive Vice President, System Finance in 2019. Prior to joining the Health System, Mr. Kimmel served as the Chief Financial Officer, Providence Strategic Management Services and Providence Health & Services Shared Services. He also served as the Senior Vice President, Chief Financial Officer for Hendrick Health System in Abilene, Texas and University Medical Center in Lubbock, Texas. Mr. Kimmel received a Bachelor of Business Administration from Texas Tech University. As Executive Vice President, Mr. Kimmel has responsibility over

Health Services and Health Enterprises, along with a concentrated focus on the Health Plan, investments, real estate, revenue cycle and other strategic initiatives as assigned.

**Cory R. Rhoades (50) CPA, FHFMA – Senior Vice President and Chief Financial Officer (“CFO”) of the Health System.** Since joining Cook Children’s in 2009, Mr. Rhoades has served as Vice President and Chief Accounting Officer and Senior Vice President of Finance of the Health System. He was promoted to the position of CFO in 2019. Prior to joining the Health System, Mr. Rhoades served as the Chief Financial Officer for Willamette Valley Medical Center in McMinnville, Oregon and as the Chief Financial Officer for Carlisle Regional Medical Center in Carlisle, Pennsylvania. Mr. Rhoades received a Masters of Accounting from Utah State University and a Bachelors of Business Administration from the University of Alaska. As Senior Vice President and Chief Financial Officer, Mr. Rhoades plans, organizes and directs all activities related to financial management, including operations finance, financial planning, budgeting, accounting, reimbursement, treasury, payroll, managed care contracting, supply chain, and internal audit. Mr. Rhoades actively participates with the Children’s Hospital Association and the Children’s Hospital Association of Texas. He is a Certified Public Accountant and a Fellow of the Healthcare Financial Management Association.

**Nancy C. Cychol (61) RN, MSN, FACHE – Chief of Hospital Services.** Mrs. Cychol joined the staff of the Medical Center in 1984 as Director of Critical Care. She was promoted to Assistant Vice President of Nursing in 1987, Vice President of Nursing in 1990, Senior Vice President of Patient Services in 1999, President of the Medical Center in 2003, and Chief of Hospital Services in 2019. Mrs. Cychol is responsible for the oversight, direction, planning, organization, leadership, and control of the daily operations of the Medical Center, CSC, Cook Children’s Surgery Center, The Center for Pediatric Surgery, Urgent Care Center operations, and the new hospital development in Prosper, TX. Prior to her employment at the Medical Center, she was employed by Riley Hospital for Children in Indianapolis, Indiana and Children’s Hospital of Dayton in Dayton, Ohio, where she served as Director of Critical Care. Mrs. Cychol received an MS in Nursing from Indiana University. Mrs. Cychol currently serves on the board of directors of LifeGift, a Texas not-for-profit organ procurement organization, Cook Children’s Northeast in Hurst, TX, and Cook Children’s Surgery Center in Plano, TX. She is actively involved in many community organizations and is an advocate for children.

**W. Britt Nelson (66) MD, FAAP – President of the Physician Network.** Dr. Nelson was named as the President of the Physician Network in October 2009 and, prior to that, served as the interim President beginning in August 2009. He served as a member of the board of directors of the Physician Network from 1996 to 2009 and was elected Chairman of the board each year from 2003 to 2009. He joined the Physician Network as a pediatric intensivist in 1995 and has served as Medical Director of Pediatric Critical Care at the Medical Center from 1990 until taking over as President of the Physician Network in August 2009. Dr. Nelson is responsible for the daily operations of the Physician Network, including strategic planning, oversight, supervision and direction of the Physician Network’s management team, and oversight of the Physician Network’s quality committee, review processes, and quality monitoring. Dr. Nelson joined the medical staff at the Hospital from a position on the pediatric faculty of the Medical College of Hampton Roads of the Eastern Virginia Medical School in Norfolk, Virginia. He earned a BS in Psychology from Baylor University and an MD degree from the University of Texas Medical Branch in Galveston. He became board certified in pediatrics after completing a residency in pediatrics at the Children’s Memorial Hospital of the University of Oklahoma. He is board certified in critical care pediatrics and completed his fellowship in critical care at the Children’s Hospital of Los Angeles in the University of Southern California School of Medicine.

## **STRATEGIC AND CAPITAL PLANS**

### **Strategic Plan**

In 2019, the Health System refocused its mission, vision, values, and operating objectives and established a new multi-year strategic plan to address the growing needs of Cook Children’s. The goal of that strategic plan is to be the preeminent model for delivering children’s healthcare in the United States.

The PROMISE of Cook Children’s is to improve the health of every child in its region through the prevention and treatment of illness, disease and injury. The strategic plan is the “road map” Cook Children’s intends to follow to attain the PROMISE. It includes the following critical components:

- Reinvest in its local community to make Fort Worth the healthiest place for children to grow up;
- Expand its reach to provide a comprehensive network of care, which families can access close to home;

- Seed innovation in care delivery and technology to meaningfully advance the quality of care; and
- Advance Cook Children's as the employer of choice for a highly engaged workforce, operating at peak performance while strengthening the well-being of its employees.

The business plan establishes financial targets to guide Cook Children's through the next 10 years and provides a framework for making strategic and financial decisions. Cook Children's strategic plan also includes a significant emphasis on physician engagement and recruitment in order to meet the growing pediatric needs in existing and new markets.

## Strategic Expansions

**Completed Capital Projects.** In 2014, the Medical Center began construction on the South Tower, along with the addition of a new facilities plant and renovation of 100,000 square feet of existing Medical Center space. The South Tower project was completed in 2016 and included a new emergency department, surgical services area, cardiovascular operating rooms, cardiovascular intensive care unit, clinical laboratory, sterile processing center, inpatient behavioral health unit, and one floor of shelled space for future inpatient bed growth.

**Prosper Expansion Plan.** In April 2017, the Health System's board of trustees approved the use of funds to acquire property in Northeast Denton and Northwest Collin County. Specifically, the area connects the cities of Denton and McKinney via highway 380 to the east and west and provides access to additional high growth areas and zip codes to the south (e.g., Plano, Frisco, Carrollton, etc.), via the Dallas North Tollway. The area is referred to as the "380 Corridor" and is home to many of the fastest growing zip codes in the United States.

The Prosper campus is expected to allow for improved and more convenient access to pediatric subspecialty referrals for the Denton and Collin County pediatric population. Excluding the adult systems in the region, there will not be a pediatric health care system in the region comparable to Cook Children's. Consisting of over 700 employed health care providers (ranging from pediatricians to pediatric subspecialists), the Physician Network has played a critical role in establishing Cook Children's as the premier pediatric health care system in the region. Annually, Cook Children's patient satisfaction scores are amongst the highest in the nation, exceeding 87% in fiscal year 2019, surpassing the national average of more than 220 children's hospitals.

To ensure continuity of care for its patients and families, Cook Children's expects to invest in resources for the campus that will limit the need for patients to travel to congested areas of Dallas County for outpatient and inpatient pediatric care.

**Prosper Expansion Progress.** In 2018, the Health System acquired a 24 acre site located 3 miles west of the Dallas North Tollway at the intersection of Highway 380 (West University Drive) and Windsong Parkway in Prosper, Texas. Prosper and the surrounding area is a rapidly growing community located in Denton County and approximately 55 miles northeast of the main medical center campus in Fort Worth, Texas.

Phase I of the project opened in October 2019 and included primary care and urgent care services. The Primary Care Office is open 5 days per week and has 12 exam rooms to support up to 4 pediatricians. It also has x-ray and point of care lab testing capabilities. The Urgent Care Center has six exam rooms and is open seven days per week.

Phase II of the project is anticipated to open in April 2020. It includes a medical office building and ambulatory surgery center. The medical office building will house numerous pediatric specialty practices and services. Also included is an outpatient lab draw station and diagnostic imaging modalities. The Center for Pediatric Surgery will relocate from Plano to the Prosper campus.

Phase III of the project is anticipated to be a five-story inpatient medical center. Phase III is currently in the conceptual stage of development. It is anticipated that the final development plan will be presented to the Health System Board of Trustees by the end of fiscal year 2020.

The estimated total cost for Phase II and Phase III is approximately \$243 million, of which \$18 million has been expended date. The remaining expenditures are anticipated to be funded by operating revenue and investment reserves.



***Dodson II.*** A new 220,000 square-foot, seven-story medical office building (“***Dodson II***”) is scheduled to open in April 2022, which will add 166 new exam rooms. Dodson II is an expansion of the current MOB (Dodson I), which opened in 2012. The Dodson II expansion will be built on, and adjoin, the west side of the existing MOB, which is located next to the Medical Center. It will be home to existing specialty clinics and provided expanded capacity in the following areas:

Craniofacial	Nephrology
Wound	Neurosurgery
Cardiothoracic Surgery	Ortho Oncology
Endocrinology	Orthopedics
Ear, Nose & Throat	Pain Clinic
Gastroenterology	Palliative Care
Genetics	Pediatric Surgery
Cardiology	Psychiatry
Hematology/Oncology	Pulmonary
Infectious Disease	Sleep
Immunology	Rheumatology
Neonatal Education and Simulation based Training (NEST)	Urology

The estimated total cost of Dodson II is approximately \$130 million and is expected to be funded from proceeds of the Series 2020 Bonds.

Two additional parking garages are being constructed as part of this project. The first is scheduled to open in April 2020 and is one block south of the Dodson MOB at the corner of 8<sup>th</sup> and Terrell. Staff will park in the new garage, which will ease the congestion currently occurring in all existing mixed use parking areas. Six hundred fifty spaces will be available in the new, five-story parking structure.

The scheduled opening date for the second garage is March 2021. It will adjoin the Dodson II MOB and will have two levels below grade and six levels above grade allowing for a total of 1,000 spaces. The two lower levels will have a separate entrance and will be intended for the use of physicians working in the specialty clinics. The six upper levels will be for the use of patients visiting these clinics.

The estimated total cost of the two garages is approximately \$60 million, of which \$7 million has been expended to date. The remaining expenditures are anticipated to be fund from proceeds of the Series 2020 Bonds, operating revenue and investment reserves.

***Additional Capital Improvements.*** Cook Children’s acquires, constructs and improves facilities on an ongoing basis. There are numerous planned refresh and enabling projects planned for the Medical Center in order to update and maintain existing facilities and operations. In addition, forecasted growth in the Physician Network may result in the need to acquire, lease, and/or update sites of operations.

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## OPERATIONS

### General

**Medical Center.** The Hospital is currently licensed for 444 beds as shown below. Actual beds in service, as of September 30, 2019 were 391.

<u>Licensure Category</u>	<u>As of September 30, 2019</u>	
	<u>Licensed Beds</u>	<u>Beds in Service</u>
General medical/surgical	232	226
Specialty	28	28
Intensive care:		
Pediatrics	57	57
Neonatal	<u>127</u>	<u>80</u>
Total	<u>444</u>	<u>391</u>

**Physician Network.** As of September 30, 2019, the Physician Network employed 427 physicians and 276 advanced practice practitioners (“**APPs**”) for a total of 703 health care providers. Of this total, 105 physicians and 21 APPs focus on primary care activity in outpatient clinic settings. The Physician Network provides community outreach through its seven Neighborhood Clinics, which employ 25 physicians and 9 APPs, focusing on providing care to patients without commercial insurance. The remaining 297 employed physicians are pediatric subspecialists. The physicians, with the assistance of 246 APPs provide care in the Medical Center, Urgent Care Clinics, and in both local and regional Cook Multispecialty Clinics.

### Utilization

**Medical Center.** The following table presents the historical utilization of the Hospital for the fiscal years ended September 30, 2017, 2018 and 2019.

#### HOSPITAL UTILIZATION STATISTICS

<u>Statistic</u>	<u>Fiscal Year</u> <u>Ended September 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Admissions	11,206	13,050	12,621
Number of Beds in Service <sup>(1)</sup>	371	391	385
% Occupancy (Beds Operated)	59.5%	58.1%	61.2%
Licensed Beds	437	445	444
% Occupancy (Beds Licensed)	50.5%	51.0%	53.1%
Patient Days	80,522	82,902	86,059
Average Length of Stay (Days) <sup>(2)</sup>	7.2	6.2	6.8
Emergency Room Visits <sup>(3)</sup>	109,766	115,006	121,118
Urgent Care Center Visits	152,059	167,538	166,713
Surgical Cases	24,826	24,443	24,671
Outpatient Clinic Visits	118,704	120,420	138,983
Average Daily Census	220.6	227.1	235.8

(1) Reflects average number of beds in service within the fiscal year.

(2) Average length of stay is based on discharged patient days.

(3) Reflects only chargeable visits; does not include emergency room visits where the prospective patient left the emergency room without being treated.

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**Physician Network.** The following table includes selected statistics regarding the level of activity of physicians employed by the Physician Network in the fiscal years ended September 30, 2017, 2018 and 2019.

#### PHYSICIAN NETWORK PATIENT STATISTICS

<u>Statistic</u>	<u>Fiscal Year</u> <u>Ended September 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Primary care encounters	620,093	637,989	666,006
Subspecialist encounters	403,212	469,425	550,067
Emergency and urgent care encounters	<u>261,769</u>	<u>281,358</u>	<u>285,167</u>
Total Encounters	<u>1,285,074</u>	<u>1,388,772</u>	<u>1,501,240</u>

#### Hospital Medical Staff

**Specialties.** The Hospital's medical staff, composed of about 750 active providers, is organized into Divisions of Medicine, Medical Subspecialties, Surgery, Critical Care, and Outpatient Services. In addition to specialized medical/surgical services, the Hospital also offers emergency medical services and one of the country's largest pediatric transport programs, including full-time helicopter services. The Hospital utilizes around-the-clock pediatric hospitalists (*i.e.*, physicians who devote most of their professional time to the care of hospitalized patients). The table below describes the pediatric subspecialties practiced by the Hospital's Medical Staff.

#### HOSPITAL MEDICAL STAFF SPECIALTIES

##### ***Division of Medicine***

Emergency Medical/Trauma  
Family Practice  
Internal Medicine  
Palliative Care  
Pediatrics

##### ***Division of Medical Subspecialties***

Allergy/Immunology  
Dermatology  
Endocrinology/Gastroenterology  
Genetics  
Hematology/Oncology  
Infectious Disease  
Metabolic Genetics  
Nephrology/Dialysis  
Neurology  
Neuro-Oncology  
Pathology  
Physical Medicine  
Psychiatry  
Radiology  
Rehabilitation  
Rheumatology  
Speech/Audiology

##### ***Division of Surgery***

Anesthesiology  
Cardiovascular/Thoracic Surgery  
General Surgery  
Hand Surgery  
Maternal/Fetal Medicine  
Neurosurgery  
Obstetrics/Gynecology  
Ophthalmology  
Oral/Maxillofacial Surgery  
Orthopedic Surgery  
Otolaryngology  
Pediatric Surgery  
Plastic/Reconstructive Surgery  
Podiatry  
Renal Transplant Surgery  
Traumatology  
Urology

##### ***Division of Critical Care***

Cardiology  
Pediatric Intensive Care  
Neonatal Intensive Care  
Neonatology  
Pulmonology

##### ***Division of Outpatient Services***

Adolescent Medicine  
Allergy and Immunology  
Asthma Clinic  
Audiology  
Cardiology  
Child Advocacy Resources and Evaluation (CARE)  
Cystic Fibrosis Clinic  
Dentistry  
Dermatology  
Developmental Pediatrics  
Diabetes Center  
Endocrinology  
Facial Malformation Clinic  
Genetics  
Hematology/Oncology Clinic  
Metabolic Genetics  
Neurology Clinic  
Neuro-Oncology  
Occupational Therapy  
Ophthalmology  
Orthopedic Clinic  
Physical Rehabilitation  
Psychiatry  
Pulmonary Medicine Clinic  
Renal Dialysis  
Speech and Language

## Signature Programs

**Neurosciences.** The Hospital has one of the largest, most technologically advanced pediatric neurosciences programs in the southwestern United States. The Hospital provides leading neurologists (15 board-certified), neurosurgeons (4 board-certified) and one physical medical and rehabilitation physician with state-of-the-art technology. The result is a team of highly skilled physicians and staff dedicated to recognizing and treating diseases, disorders and injuries of the developing brain, spinal cord, nerves, and muscles in children. Cook Children's is equipped with magnetoencephalography ("**MEG**") technology. The MEG technology helps to accurately localize seizure focus in a non-invasive manner. The Hospital is one of the few children's hospitals in the country to acquire the revolutionary intraoperative MRI ("**iMRI**"). The iMRI system technology enhances surgical procedures by displaying highly accurate, real-time digital images of the brain during surgery.

The Hospital has one of the largest pediatric deep brain stimulation ("**DBS**") programs in the world. Combining the "revolutionary" iMRI with the DBS program, the Hospital is now able to provide asleep DBS surgery with general anesthesia to children suffering from dystonia, allowing young patients to sleep through surgery and reducing the anxiety associated with it.

The Hospital's epilepsy program is one of the leading and most comprehensive pediatric epilepsy programs in the country. The Hospital is a dedicated Level 4 pediatric epilepsy center, the highest level defined by the National Association of Epilepsy Centers, and is capable of performing the most complex epilepsy related surgical procedures. The program coordinates the skills of highly specialized epileptologists, neurologists, neurosurgeons, neuropsychologists, nurse specialists, EEG technologists, nutritionists, nurse educators, social workers, and child life specialists to create a team with expertise in the diagnosis and management of children with epilepsy.

The Dodson Neuro Research Endowment was created in 2018 to establish a firm financial foundation so as to provide for patients and families at Cook Children's long after the receipt of the initial gift. The goal of this endowment is to create a team of dedicated research staff to work directly with the physicians/staff on study design, data analysis and publication of results.

The Hospital's neurosciences program sees more than 13,000 infants and children with seizures each year. More than 7,000 EEGs and epilepsy surgeries are performed at the Hospital annually. The neuroscience program is composed of multiple clinics, including a genetic epilepsy clinic, a new onset seizure clinic, movement disorders clinic, a comprehensive headache clinic, a comprehensive stroke clinic which is made up of hematologists, oncologists, neurologists, neurosurgeons, neurophysiologists, rheumatologists, interventional radiologists and movement disorder specialists. The stroke clinic team sees approximately 120 outpatient cases of pediatric stroke annually in addition to its inpatient cases.

The neuroscience team also provides care in Cook Children's specialty clinics located in Alliance, Amarillo, Denton, Fort Worth, Mansfield, Midland, San Angelo, Southlake, Tyler and Waco.

**Heart Center.** Cook Children's Heart Center provides comprehensive, family-centered care for neonates, infants, children, and adults with acquired or congenital heart and cardiovascular defects. The Heart Center team includes cardiac anesthesiologists, board certified cardiologists, cardiothoracic surgeons, cardiac intensivists, perfusionists, ECMO specialists, nurse practitioners and pediatric cardiology nurse specialists. Cook Children's Heart Center services include electrocardiography, fetal echocardiography, electrocardiogram (EKG), 24-hour Holter monitoring, trans-telephonic electrocardiogram monitoring, stress testing, and cardiac catheterization.

Diagnostics include a new state of the art digital echo lab with 3-D imaging capabilities for fetal and pediatric echocardiography that has received accreditation from the International Commission on Accreditation for Echocardiography Laboratories, an accomplishment achieved by only six other centers in Texas. Echocardiography testing is provided in the echocardiography lab, operating rooms, and the intensive care units as well as in the regional and outreach clinics.

In addition to providing surgical treatment for the most complex heart defects, the invasive portion of the cardiology program includes a high-tech cardiac catheterization laboratory with rotational angiography and 3-D technology. The pediatric interventional cardiology team at the Hospital specializes in diagnostic evaluation and trans-catheter treatment of a variety of complex congenital heart disease lesions.

The cardiothoracic surgery program provides diagnosis, treatment and comprehensive cardiac surgical care for over 500 complex congenital heart defect patients annually. A new cardiovascular surgical unit opened as part

of the South Tower expansion project. The unit contains dedicated cardiovascular operating rooms, a hybrid catheterization lab, and an expanded number of inpatient intensive care units. Additionally, a dedicated cardiac stepdown unit was opened to treat patients as they transition from intensive care prior to being discharged.

The critical cardiovascular care unit provides specialized intensive care for patients with congenital heart disease and defects before and after surgery. The unit provides cardiac critical care and physician onsite coverage 24 hours a day, seven days a week to be available to evaluate and treat cardiac patients.

The Heart Center team also provides care in Cook Children's specialty clinics located in Abilene, Amarillo, Arlington, Denton, Fort Worth, Mansfield, Midland, San Angelo, Southlake, Waco and Wichita Falls.

***Hematology and Oncology Center.*** For more than 30 years, the Hospital's Hematology & Oncology Center (the "***Center***") has been providing clinical care to patients with cancer and blood disorders. The Center and its board-certified pediatric hematologists/oncologists provide comprehensive care to infants, children, and adolescents with a broad spectrum of oncological and hematological disorders, including:

- Leukemia (acute lymphocytic, acute myelocytic and chronic myelocytic);
- Lymphoma (Hodgkin's and non-Hodgkin's);
- Solid tumors of soft tissue (neuroblastoma, Wilm's tumor, rhabdomyosarcoma and other soft tissue sarcomas, neuroectodermal tumors, retinoblastoma and a variety of rare childhood tumors);
- Central nervous system tumors;
- Bone tumors (osteogenic and Ewing's sarcoma and rare tumors of the skeletal system);
- Cytopenias (anemia, neutropenia and thrombocytopenia);
- Sickle cell disease and other hemoglobinopathies;
- Bleeding disorders (hemophilia, von Willebrand disease and others);
- Thrombophilia disorders (inherited and acquired clot disorders and stroke); and
- Bone marrow failure syndromes.

The Center is a member institution or has received accreditation from several nationally-known cancer and blood disorder organizations for conducting research trials, including:

- Children's Oncology Group;
- New Approaches to Neuroblastoma Therapy;
- Therapeutic Advances for Childhood Leukemia;
- Center for International Blood and Marrow Transplant Research;
- Clinical Transplant Network;
- Texas-Oklahoma Pediatric Neuro-Oncology Consortium;
- International Pediatric Stroke Society;
- Regional Hemophilia Treatment Center;
- National Marrow Donor Program; and
- Many national and international patient registries.

Beginning in January 2013, the Center began offering I-131 metaiodobenzylguanidine ("***MIBG***") therapy, a targeted radiation therapy that delivers radiation directly to cancer cells in neuroblastoma tumors and metastases. Since 1986, the Hospital's pediatric bone marrow and stem cell transplant program has performed over 1,100 autologous and allogeneic transplants in children with cancer or genetic diseases, making it one of the most diverse and experienced pediatric transplant programs in the Southwest. The program is one of the national leaders in the use of transplants for non-malignant disorders. The program provides hematopoietic stem cell transplant as a treatment option for a variety of acquired and congenital disorders of children and young adults, including hematopoietic malignancies and solid tumors such as neuroblastoma and brain tumors, inherited immune deficiency syndromes, bone marrow failure syndromes, hemoglobinopathies, and inherited metabolic diseases. Through its affiliation with the National Marrow Donor Program, the Hospital has access to bone marrow, peripheral blood, stem cell, and umbilical cord blood donor registries throughout the world. The program is a member of the Center for International Blood and Marrow Transplant Research, the Pediatric Bone Marrow Transplant Consortium and the Children's Oncology Group. In addition, the program is accredited through the Foundation for Accreditation for Cellular Therapy.

The hematology and oncology team also provides care in Cook Children's clinics in Abilene, Grapevine, Midland, San Angelo, Tyler and Waco.

## **Nursing**

Cook Children's nurse staffing follows the recommendations from the National Institute of Medicine and the American Nurses Credentialing Center's Magnet recognition program. Cook Children's nurse staffing includes over 1,600 RNs, with approximately 84% at the baccalaureate or higher level and approximately 49% holding an advanced certification in a nursing specialty. Cook Children's currently has 39 active affiliation agreements for academic nursing programs that include LVN, AND, BSN, MSN and DNP programs. The number of nursing students rotating through Cook Children's in 2019 included 1,188 undergraduate and 207 graduate, for a total of 1,395. All baccalaureate-prepared and entry-level masters, new graduate nurses are hired through the Nurse Residency Program. This program is nationally accredited through the Commission on Collegiate Nursing Education (CCNE). Through this year-long program, nurse residents complete over 200 hours of engaging, interactive classroom experiences, as well as completing over 1,500 clinical hours within their area of nursing specialty. Since its inception in 2009, this program has yielded over 500 new graduate nurses who are not only committed to the organization (98% retention rate at one year), but also invested in professional growth opportunities, as exemplified by the increasing number of previous nurse residents within leadership roles throughout Cook Children's (such as preceptors, charge nurses, managers and directors). Clinical educators provide continuing education opportunities based on identified needs, new strategies, and high-risk or complex procedures/care. A simulation lab creates a safe environment for the learning to occur. In fiscal year 2019, Cook Children's Simulation Program created over 700 opportunities for front line staff to perform to perfection by practicing simulated experiences. Focused on patient safety, the Simulation Program supported 11,466 learners totaling over 26,000 hours of training encompassing clinical development, clinical orientation, competency validations, basic and advanced life support certifications, and non-staff practicums and education. The Simulation Program aligned department goals with 2019 Cook Children's strategies of delivering quality care safely, reinvesting in the community, and expanding the system's reach by using innovation and technologies that support zero harm. Cook Children's retention strategies focus on nurse satisfaction, shared governance, and opportunities for advancement and recognition. Advancement opportunities include tuition reimbursement, advanced certification review courses and bonuses, continuing education credit courses, and promotional opportunities. Recognition programs include several award programs such as Daisy, Peak Performer, Cook Children's Great 10 and DFW Great 100.

## **Employees**

Cook Children's employed approximately 6,634 full-time and 1,127 part-time employees representing 6,888 full time equivalents ("**FTEs**") as of the fiscal year ended September 30, 2019. Employees are offered a comprehensive benefit package. The Medical Center employed approximately 2,993 full-time and 749 part-time employees, representing a total of 3,150 FTEs as of September 30, 2019, and an average of 8.1 FTEs per adjusted occupied bed for the fiscal year ended September 30, 2019. Employees of the Medical Center are not represented by a union, and there are no collective bargaining agreements. The Medical Center has not experienced any work stoppages due to strikes or labor problems.

## **Licenses and Accreditation**

The Medical Center is licensed by the Texas Department of State Health Services and certified by the United States Department of Health and Human Services for participation in Medicare and Medicaid. The Medical Center is a member of the American Hospital Association, the Texas Hospital Association, and the Children's Hospital Association of Texas. Cook Children's has been continuously accredited by The Joint Commission, with the most recent accreditation received in November 2018.

In September 2006, Cook Children's received its first designation as a Magnet hospital. Magnet designation is bestowed upon the top hospitals in the nation by the American Nurses Credentialing Center, for the exemplary quality of nursing services. The Medical Center received Magnet re-designation in March 2016.

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## SERVICE AREA AND COMPETITION

### Service Areas and Discharges

The Medical Center provides primary, secondary, tertiary, and quaternary pediatric care in Tarrant County, Texas, and contiguous counties, as well as certain types of specialty care regionally throughout Texas. The Medical Center segregates its 132-county service area into the major service areas listed below:

- Six-County Area – Tarrant, Hood, Johnson, Parker, Denton and Wise counties;
- Tertiary Referral Markets – 122 counties to the south and west of the Dallas/Fort Worth Metroplex; and
- Metroplex East – Collin, Dallas, Rockwall and Ellis counties.

The following tables depict the Hospital's inpatient discharges and observations from each service area:

#### HOSPITAL DISCHARGES BY SERVICE AREA

<u>Service Area</u>	<u>Fiscal Year Ended September 30,</u>			<u>% Change</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2017-2019</u>
Six-County Area	8,274	10,016	9,513	15%
Tertiary Referral Markets	2,035	2,137	2,291	13%
Metroplex East	617	625	557	(10)%
Other	288	287	258	(10)%
Total	<u>11,214</u>	<u>13,065</u>	<u>12,619</u>	13%

#### HOSPITAL OBSERVATIONS BY SERVICE AREA<sup>(1)</sup>

<u>Service Area</u>	<u>Fiscal Year Ended September 30,</u>			<u>% Change</u>
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2017-2019</u>
Six-County Area	8,871	8,221	9,718	10%
Tertiary Referral Markets	1,267	1,202	1,474	16%
Metroplex East	524	490	572	9%
Other	<u>131</u>	<u>123</u>	<u>160</u>	22%
Total	<u>10,793</u>	<u>10,036</u>	<u>11,924</u>	10%

(1) Observation patients consist of patients with conditions that can be treated in a short stay or patients who need testing and medical evaluation to determine their condition or the need for possible admission to the hospital as an inpatient.

The following chart depicts historical and projected growth in the pediatric population within the Hospital's principal service areas:

#### GROWTH TRENDS IN PEDIATRIC POPULATION (Birth – 14 Years)

<u>Service Area</u>	<u>2010</u>	<u>2019</u>	<u>Expected</u> <u>2024</u>	<u>Annual Growth</u> <u>2010-2019</u>	<u>Expected</u> <u>Annual Growth</u> <u>2019-2024</u>
Six-County Area	659,727	713,967	730,627	0.9%	0.5%
Tertiary Referral Markets	796,888	832,024	859,923	0.5%	0.7%

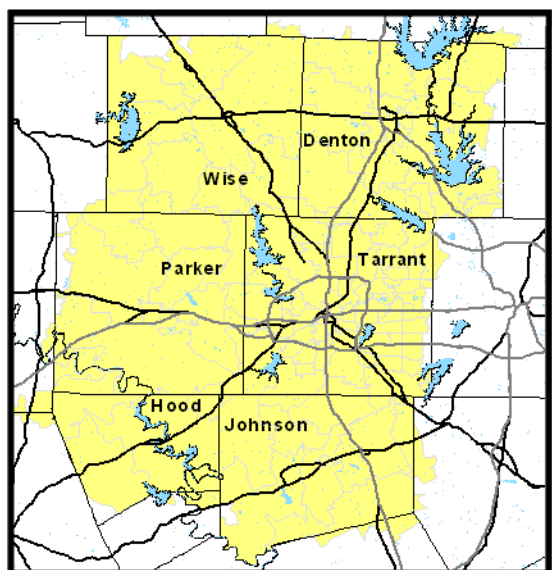
Source: Medstat/Claritas.

The Physician Network also has a significant presence in the Six-County Area and the Tertiary Referral Markets. In the Six-County Area, the Physician Network operates 29 primary care locations, 7 neighborhood clinics, 7 urgent care centers and 9 specialty or multi-specialty sites. Additionally, the Physician Network operates one primary care location and nine multi-specialty sites in the Tertiary Referral Markets.

## Primary and Referral Service Areas

**Primary Service Area.** As of November 2019, the Six-County Area included a population of 3,394,647, approximately 21% of which were ages 0 to 14, according to The Nielsen Company, Truven Healthcare Analytics. Within the Six-County Area, Tarrant County contained approximately 40% of the population of the Six-County Area in 2019, and it serves as the Hospital's primary service area, generating approximately 57% of its inpatient discharges and 74% of combined inpatient/outpatient services each year. The following map identifies the Six-County Area, which includes the primary service area, and the following table shows the Hospital's market share within its primary service area.

**HOSPITAL SIX-COUNTY SERVICE AREA**



**HOSPITAL'S PRIMARY SERVICE AREA MARKET SHARE<sup>(1)</sup>  
(Tarrant County)**

<u>Hospital/System</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b><i>Cook Children's Medical Center</i></b>	<b><i>82%</i></b>	<b><i>84%</i></b>	<b><i>86%</i></b>
Children's Medical Center – Dallas	8%	6%	5%
Texas Health Resources	5%	5%	3%
Tarrant County Hospital District	3%	2%	2%
HCA Healthcare	2%	2%	2%
Other <sup>(2)</sup>	0%	1%	2%

(1) Discharges aged 0-14, excluding normal newborns, neonates and OB/GYN product lines.

(2) No other hospital has a primary service area market share of 1% or more.

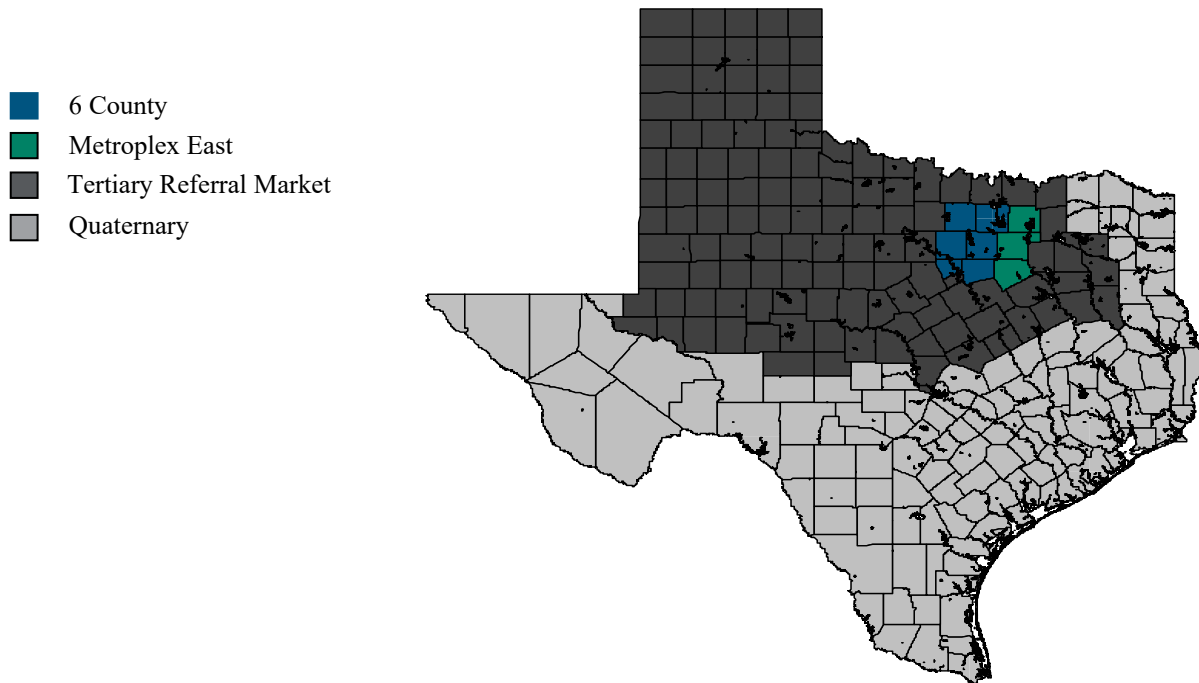
Source: Dallas-Fort Worth Hospital Council Education and Research Foundation and Texas Public Use Outpatient and Ambulatory Surgical Center Data File.

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***Tertiary Referral Markets.*** The outlying Tertiary Referral Markets are depicted below and stretch northwest from the panhandle, southward through Midland/Odessa into central Texas and the Killeen-Temple area, east to Tyler and due north to the Oklahoma/Texas border. An average of approximately 2,180 inpatient discharges originated from this area for the fiscal years 2017 through 2019. Outpatient subspecialty clinics are staffed in several locations in this area with multi-specialty clinics located in Abilene, Amarillo, Brownwood, Lubbock, Midland/Odessa, San Angelo, Waco, and Wichita Falls.

#### HOSPITAL'S 122-COUNTY TERTIARY REFERRAL MARKET



#### Primary Service Area Demographics

The following tables depict employment and household income estimates for the Hospital's primary service area for the years indicated:

#### HOSPITAL'S PRIMARY SERVICE AREA EMPLOYMENT (Tarrant County and United States)

	<u>2016 Tarrant</u>	<u>2016 U.S.</u>	<u>2017 Tarrant</u>	<u>2017 U.S.</u>	<u>2018 Tarrant</u>	<u>2018 U.S.</u>
Civilian Labor Force	1,011,580	159,187,000	1,037,441	160,320,000	1,062,733	162,075,000
Unemployed	40,205	7,751,000	38,631	6,982,000	37,114	6,314,000
Percent Unemployed	4.0%	4.9%	3.7%	4.4%	3.5%	3.9%

Source: Texas Workforce Commission, 2019

#### HOSPITAL'S PRIMARY SERVICE AREA HOUSEHOLD INCOME (Tarrant County)

	<u>2019</u>
Less than \$15,000 to \$24,999	14.9%
\$25,000 - \$49,999	20.3%
\$50,000 and over	64.8%

Source: The Nielsen Company, Truven Healthcare Analytics, 2019

## FINANCIAL INFORMATION

### Summary of Revenues, Other Income and Expenses

The following summary of Cook Children's consolidated revenues and expenses for the fiscal years ended September 30, 2017, 2018 and 2019, has been derived from the audited consolidated financial statements of Cook Children's for those periods. The information for the fiscal years ended September 30, 2018 and 2019, should be read in connection with the audited financial statements reproduced as APPENDIX B, including particularly the notes to such statements. The financial information set forth below includes the financial results of operations of Home Health, the Health Plan, the Indemnity Company, and related affiliates which are not Obligated Group members and, consequently, are not obligated on the Series 2020 Note that secures payment of the Series 2020 Bonds. In the fiscal year ended September 30, 2019, the Obligated Group accounted for approximately 73% of total revenue and 71% of total expenses of Cook Children's.

#### SUMMARY OF CONSOLIDATED REVENUES AND EXPENSES OF COOK CHILDREN'S

	<b>Fiscal Year Ended September 30,</b>		
	<i>(audited)</i>		
	<u><b>2017</b></u>	<u><b>2018</b></u>	<u><b>2019</b></u>
	<i>(in thousands)</i>		
<b>Revenues</b>			
Patient service revenue	\$1,037,684	\$1,055,866	\$1,137,307
Premium revenue	484,827	546,073	564,884
Other revenue	<u>99,156</u>	<u>128,704</u>	<u>141,763</u>
Total revenue	<u>1,621,667</u>	<u>1,730,643</u>	<u>1,843,954</u>
<b>Expenses</b>			
Salaries and wages	583,384	611,058	644,720
Employee benefits	141,676	157,580	166,815
Medical claims expense	307,535	336,981	355,320
Operating supplies and expenses	351,966	374,725	374,873
Depreciation and amortization	67,109	81,879	86,543
Interest expense	30,286	30,307	28,048
Loss/(gain) on disposition of assets	<u>920</u>	<u>(491)</u>	<u>100</u>
Total expenses	<u>1,482,876</u>	<u>1,592,039</u>	<u>1,656,419</u>
<b>Operating Income</b>	<u>138,791</u>	<u>138,604</u>	<u>187,535</u>
<b>Other Income / (Expense)</b>			
Investment income	22,247	99,832	64,698
Change in net unrealized gains and losses on investments	93,599	49,804	32,040
Change in fair value of interest rate swap	2,911	2,296	(2,683)
Contribution of net assets	-	14,101	-
Loss on extinguishment of debt	<u>-</u>	<u>(292)</u>	<u>-</u>
Total other income/(expense)	<u>118,757</u>	<u>165,741</u>	<u>94,055</u>
<b>Excess of Revenues over Expenses</b>	<u><u>\$257,548</u></u>	<u><u>\$304,345</u></u>	<u><u>\$281,590</u></u>

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## Summary of Statement of Financial Position

The following summary of Cook Children's consolidated assets and liabilities as of September 30, 2017, 2018 and 2019, has been derived from the audited consolidated financial statements of Cook Children's for those periods. The information as of September 30, 2018 and 2019, should be read in connection with the audited financial statements reproduced as APPENDIX B, including particularly the notes to such statements. The financial information set forth below includes the financial positions of Home Health, the Health Plan, the Indemnity Company, and related affiliates which are not Obligated Group members and, consequently, are not obligated on the Series 2020 Note that secures payment of the Series 2020 Bonds. As of September 30, 2019, the Obligated Group accounted for approximately 93% of total assets of Cook Children's.

### SUMMARY STATEMENT OF FINANCIAL POSITION OF COOK CHILDREN'S

	As of September 30,		
	(audited)		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	(in thousands)		
<b>Assets</b>			
Current Assets	\$841,922	\$694,784	\$990,189
Assets limited to use	15,108	17,870	19,643
Long-term investments	1,723,621	2,110,049	2,135,694
Property and equipment, net	843,974	907,933	918,215
Other assets	<u>48,782</u>	<u>52,634</u>	<u>49,522</u>
Total assets	<u>\$3,473,407</u>	<u>\$3,783,270</u>	<u>\$4,113,263</u>
<b>Liabilities and Net Assets</b>			
Current liabilities	257,203	278,073	330,512
Long-term debt outstanding, current portion	429,276	361,966	359,201
Other liabilities	<u>16,522</u>	<u>17,133</u>	<u>18,546</u>
Total liabilities	<u>703,001</u>	<u>657,172</u>	<u>708,259</u>
Net assets without donor restrictions	2,677,908	2,981,857	3,260,056
Net assets with donor restrictions	88,119	141,071	142,104
Noncontrolling interest	4,379	3,170	2,844
Total net assets	<u>\$2,770,406</u>	<u>\$3,126,098</u>	<u>\$3,405,004</u>
Total liabilities and net assets	<u>\$3,473,407</u>	<u>\$3,783,270</u>	<u>\$4,113,263</u>

In February 2016, the Financial Accounting Standards Board ("**FASB**") issued Accounting Standards Update ("**ASU**") 2016-02, "Leases (Topic 842)," which will require a lessee to report all leases in its balance sheet at the present value of lease payments. Cook Children's is adopting the lease standard at the adoption date of October 1, 2019. Cook Children's expects that the adoption of ASU 2016-02 will result in an increase in both assets and liabilities on the balance sheet. See Note 24 to the consolidated financial statements included in this Official Statement as APPENDIX B. The First Supplement includes an amendment to the Master Indenture to the effect that any operating lease of Cook Children's will not be treated as "Debt" as defined in, and for purposes of compliance with, the Master Indenture. See APPENDIX C – "SUMMARY OF MASTER INDENTURE, TRUST INDENTURE, AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS – SUMMARY OF THE SPRINGING AMENDMENTS." The financial data that appears in the tables under the subheadings "– Debt Service Coverage" and "– Capitalization of the Obligated Group" does not reflect the adoption of ASU 2016-02.

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## Sources of Payment

The Medical Center derives a substantial portion of its revenues from third-party payors. For a description of the terms of payment, see “BONDHOLDERS’ RISKS – Patient Service Revenues” and “– Dependence upon Commercial Third-Party Payors” and “REGULATION OF THE HEALTH CARE INDUSTRY” in PART II of this Official Statement. The table below presents the approximate percentage of the Medical Center’s net patient care revenues by source of payment for each of the three fiscal years ended September 30, 2017, 2018 and 2019.

### MEDICAL CENTER SOURCES OF PAYMENT

	Fiscal Year Ended September 30,		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Commercial Managed Care	62.8%	61.1%	56.7%
Medicaid Managed Care	27.4%	29.1%	30.4%
Medicaid	5.6%	5.5%	7.8%
Commercial Insurance	2.2%	0.5%	2.6%
Medicare	0.6%	0.4%	0.5%
Self Pay	<u>1.4%</u>	<u>3.5%</u>	<u>2.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**Managed Care.** In the Dallas/Fort Worth/Arlington MSA, managed care contracts are predominant for members who do not participate in the Medicare or Medicaid programs. Under managed care, third-party administrators negotiate contracted rates (for a short number of years) with preferred providers on behalf of the multiple employers for whom they manage employee health care costs. These contracts have increasingly included steerage through benefit differentials that encourage efficient and cost access to preferred providers. Cook Children’s has maintained annual increases through negotiating most of its payor agreements with evergreen or multi-year terms. The majority of the market continues to be self-funded with preferred provider organizations and point of service products still dominating sales to employers. Cook Children’s is seeing more creativity around networks and benefit structures within potential new health insurance offerings, and management of Cook Children’s believes it is in a strong position to participate in most, if not all, of these new offerings.

The top five companies with which Cook Children’s has managed care contracts accounted for 36.4% of gross patient revenue during fiscal year 2019. None of these companies accounted for more than 17.2% of total gross patient revenue. The larger contracts have multiple-year terms with built-in price escalators based on inflation within the health care sector. See “BONDHOLDERS’ RISKS – Dependence upon Commercial Third-Party Payors” in PART II of this Official Statement.

**Medicaid.** In fiscal year 2019, the Medical Center received 38.2% of its net patient service revenue from Medicaid and Managed Medicaid programs. Supplemental Medicaid programs supported through federal and state funding mechanisms comprised another 7.1% of net revenue in fiscal year 2019. See “REGULATION OF THE HEALTH CARE INDUSTRY – Federal and State Legislation; National Health Care Reform – Stated Medicaid Programs” in PART II of this Official Statement for a description of the supplemental Medicaid programs and the risks related to such programs. For the periods of operations described in this APPENDIX A, supplemental programs include:

- Children’s Hospitals Graduate Medical Education (“**CHGME**”);
- Medicaid Graduate Medical Education (“**GME**”);
- Delivery System Reform Incentive Payment (“**DSRIP**”);
- Uncompensated Care (“**UC**”);
- Uniform Hospital Reimbursement Increase Program (“**UHRIP**”); and
- Disproportionate Share Hospital (“**DSH**”).

Significant changes in CHGME reimbursement are not anticipated. The CHGME Support Reauthorization Act of 2018 reauthorized CHGME program for five years through 2023 with a slight increase in funding each year.

The Medicaid GME program was implemented for private hospitals in Texas on April 1, 2019 with the first payment expected during fiscal year 2021. This new program is projected to bring the Medical Center \$500k - \$600k annually.

In December 2017, the Centers for Medicare and Medicaid Services (“**CMS**”) approved a five-year renewal of the Texas 1115 Transformation waiver from October 2017 through September 2022. The renewal ensures the continuation of the UC program pool.

The waiver renewal extended the DSRIP funding pool for four years, through September 30, 2021. DSRIP pool sizes are scheduled to decrease by 20% between 2019 and 2021. DSRIP will no longer be available beginning October 2021. A draft transition plan required by Special Terms and Conditions (“**STC’s**”) of the waiver describing how the State will continue to develop its delivery system reform efforts without DSRIP funding has been submitted to CMS. The finalized plan must be submitted by March 31, 2020. HHSC’s intent is to implement a replacement program. However, the pool size, funding mechanism and whether the payments will be state-directed or pass-through payments are unknown.

CMS also required HHSC to submit a revised UC protocol under STC’s for the waiver renewal. The STC’s required a UC protocol that only includes charity costs allowed under a provider’s charity policy. This change alone is expected to reduce the Medical Center’s UC reimbursement by two-thirds through September 2022. After September 2022, a new waiver and/or program(s) will need to be submitted by HHSC to CMS for approval.

HHSC received approval from CMS to implement the new UHRIP program for hospital services in April 2017. The Medical Center began receiving UHRIP payments in March 2018. UHRIP is a Medicaid directed payment program operated by HHSC. UHRIP’s purpose is to reduce the Medicaid shortfall of hospitals who serve persons with Medicaid. Eligible hospitals receive a percentage increase paid on every inpatient and outpatient claim submitted to contracted Medicaid managed care organizations (MCOs). Subsequently, HHSC put forward a plan to reform the UHRIP program. HHSC has conveyed its intention to move the UHRIP funding pool allocation methodology away from the Medicaid shortfall as a part of this reform, but a final allocation method has not been chosen.

Under the Medicaid DSH program, hospitals that serve a disproportionate share of low-income patients receive payments to help cover the costs of caring for them. Substantial changes are anticipated for the Medicaid DSH program, although scheduled cuts to the programs were delayed through May 22, 2020. Overall cuts in funding of about 22% in 2020 and 44% through 2025 are still expected, but Congress has not finalized the rule.

The UHRIP and DSH programs have historically utilized a Medicaid shortfall methodology to determine program eligibility and provider capacity for drawing down these supplemental funds. Due to a CMS administrative rule change, and the outcomes of numerous related lawsuits, the new methodology that is used to calculate Medicaid shortfall could lower or eliminate the Medical Center’s ability to draw down UHRIP and DSH program funds.

On November 18, 2019, CMS published proposed rules that could impose significant changes on Medicaid supplemental payments and financing arrangements that would limit the availability of some categories of supplemental payments. The rule also proposes potentially burdensome detailed annual and quarterly reporting requirements relating to supplemental payments. If finalized as proposed, the changes would mark a significant departure from the Medicaid program’s historical approach to supplement payments. The proposed rules could significantly impact the Medical Center’s participation in the LPPF (as defined below), which could reduce or eliminate the ability to draw down UHRIP and UC payments.

The Medical Center funds the state portion of UHRIP and UC payments through Intergovernmental Transfers (“**IGT**”). To generate funding for the IGT payments, the Medical Center contributes, in the form of a tax payment, to a Local Provider Participation Funds (“**LPPFs**”). It is possible that the Medical Center’s mandatory payment will be greater than the amount of IGT needed to fund its individual supplemental payments.

In addition to payments for patient services, for the periods of operations described in this APPENDIX A the Medical Center also received supplemental payments under the DSH, CHGME, UHRIP, UC and DSRIP programs in the amounts set forth below. See also Note 3 in the Financial Statements in APPENDIX B.

<u>Program</u>	<u>Fiscal Year Ended September 30,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
	<i>(in thousands)</i>		
DSH program	\$13,732	\$14,660	\$14,982
CHGME program	126	123	145
UHRIP program	-	1,935	9,068
UC program	14,009	37,079	42,502
DSRIP program	8,276	8,942	8,754
Total	36,143	62,739	75,451
LPPF Expense	6,038	11,785	22,275
Net Payment Total	\$30,105	\$50,954	\$53,176

### Management Discussion and Analysis of Financial Results of Operations

***Fiscal Year Ended September 30, 2019.*** Consolidated net revenue was \$1,844.0 million, an increase of \$113.3 million compared to fiscal year 2018. Medical Center net revenue was \$1,151.6 million, an increase of \$81.1 million when compared to fiscal year 2018. The increase in consolidated net revenue was driven by increased inpatient and outpatient hospital volumes and increased Health Plan revenues due to a UHRIP rate increase. Compared to fiscal year 2018, Medical Center admissions, patient days, and outpatient clinic visits increased by (3.3)%, 3.8%, and 15.4%, respectively. Health Plan premium revenue increased by \$22.1 million due to the new UHRIP reimbursement rate increase. From fiscal year 2018 to 2019, lives covered under the Health Plan remained steady at approximately 133,000.

Consolidated expenses and losses were \$1,656.4 million, an increase of \$64.4 million. The increase was driven primarily by higher salary, wage, and benefit costs and increased medical claims expense. Salaries, wages, and benefits increased \$42.9 million compared to fiscal year 2018. The increase was driven primarily by increased staffing costs as a result of higher patient volumes. Medical claims expense increased by \$18.3 million as a result of the pass-thru UHRIP rate increase for Health Plan covered lives.

Consolidated operating income was \$187.5 million, and other income (which consists of investment return and other non-operating activities) was \$94.1 million, resulting in excess of revenues over expenses of \$281.6 million. Included in this, the Medical Center contributed operating income of \$215.9 million and other income of (\$1.2) million, accounting for \$214.7 million of excess of revenues over expenses.

***Fiscal Year Ended September 30, 2018.*** Operating income was \$138.6 million, and other income (which consists of investment return and other non-operating activities) was \$165.7 million, resulting in excess of revenues over expenses of \$304.3 million. Included in this, the Medical Center contributed operating income of \$180.5 million and other income of \$3.4 million, accounting for \$183.9 million of excess of revenues over expenses.

***Fiscal Year Ended September 30, 2017.*** Operating income was \$138.8 million, and other income was \$118.8 million, resulting in excess of revenues over expenses of \$257.5 million. Included in this, the Medical Center contributed operating income of \$160.1 million and other income of \$1.4 million, accounting for \$161.5 million of excess of revenues over expenses.

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## Cash and Investments

A summary of cash and investments of the Obligated Group as of September 30, 2017, 2018 and 2019 is set forth in the table below. See Note 5 to the financial statements included in APPENDIX B for a description of Cook Children's commitments to make additional hedge fund and limited partnership investments.

### SUMMARY OF CASH AND INVESTMENTS

	Fiscal Year Ended September 30,		
	2017	2018	2019
	<i>(unaudited, in thousands)</i>		
Cash and cash equivalents <sup>(1)</sup>	\$411,062	\$235,832	\$521,476
Short-term investments <sup>(2)</sup>	146,315	74,604	71,773
Long-term investments:			
Long-term investments <sup>(3)</sup>	<u>1,648,620</u>	<u>2,033,854</u>	<u>2,053,446</u>
Total cash and long-term investments	\$2,205,997	\$2,344,290	\$2,646,695
Less: Permanently restricted cash	<u>(52,158)</u>	<u>(80,748)</u>	<u>(82,360)</u>
Total unrestricted cash and investments	<u>\$2,153,839</u>	<u>\$2,263,542</u>	<u>\$2,564,335</u>
 Average daily operating expenses	 \$2,907	 \$3,106	 \$3,252
Days cash on hand <sup>(4)(5)</sup>	741	729	788

(1) Cash and cash equivalents are composed of assets that are or may be immediately converted to cash.

(2) Short-term investments are assets that are convertible into cash in one year or less.

(3) Long-term investments are comprised of U.S. small, mid and larger capitalization stocks, international stocks, intermediate term fixed income securities, non-directional hedge funds, real estate, and private equity.

(4) Unrestricted cash and investments divided by average daily operating expenses (excluding depreciation) for the fiscal year then ended.

(5) If daily operating expenses of Cook Children's rather than the Obligated Group had been depicted, the days cash on hand would be 598, 591 and 645, respectively, primarily due to the operating expenses of the Health Plan.

After issuance of the Series 2020 Bonds, \$29,840,000 in principal amount of bonds (the "**Series 2010B Bonds**") will be outstanding that are subject to optional and/or mandatory tender. If such Series 2010B Bonds are tendered and not remarketed, the Medical Center will be required to purchase such unremarketed Series 2010B Bonds. To provide for the purchase of all Series 2010B Bonds that are tendered for purchase and not remarketed, Cook Children's intends to maintain a combination of unencumbered cash, cash equivalents, and high grade fixed income securities that may be sold for same day settlement in an amount (valued at market) sufficient to purchase the aggregate principal amount of such Series 2010B Bonds. Cook Children's is not contractually obligated to maintain these cash and investment arrangements. See "BONDHOLDERS' RISKS – Security and Enforceability – Risks Related to Variable Rate Securities" in PART II of this Official Statement.

## Investment Policy

The Investment Committee of the board of trustees of the Foundation oversees all Foundation investments and establishes investment policy for Cook Children's. The investment policy is reviewed annually by the Investment Committee and was most recently revised in July 2018. The investment policy provides guidelines for the invested long-term assets of Cook Children's, which are held in a master custodial account of the Foundation. Investment results are monitored on an ongoing basis by the internal Investment Office and quarterly by the Investment Committee. The Investment Office consists of four investment professionals, one operational professional and one executive assistant. The investment policy currently provides for a targeted allocation of long-term investments with an allowable range of 5% to 20% in in US equity, 10% to 25% in international equity, 2.5% to 10% in fixed income, 15% to 35% in independent return, 30% to 50% in private investments, and 0% to 5% in cash.

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The following table describes all investments held long-term by all entities in Cook Children's. Some of these investments are not included in the master custodial account and thus do not fall under the investment policy. As of September 30, 2019, all investments held in the master custodial account were in compliance with the investment policy.

#### LONG-TERM INVESTMENTS

	<b>September 30,</b>		
	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
	<i>(\$ in thousands)</i>		
Equities	\$384,561	\$473,312	\$427,782
Equities (as a percentage)	22.3%	22.4%	20.0%
Fixed Income	323,705	376,982	416,789
Fixed Income (as a percentage)	18.8%	17.9%	19.5%
Real Estate	25,976	23,307	19,253
Real Estate (as a percentage)	1.5%	1.1%	0.9%
Alternative Investments <sup>(1)</sup>	989,379	1,236,448	1,271,870
Alternative Investments (as a percentage)	<u>57.4%</u>	<u>58.6%</u>	<u>59.6%</u>
Total long-term investments	<u>\$1,723,621</u>	<u>\$2,110,049</u>	<u>\$2,135,694</u>

(1) Includes hedge funds, real estate and interests in partnerships that invest in international equity and fixed income securities.

#### Debt Service Coverage

The following table sets forth, for the fiscal years ended September 30, 2017, 2018 and 2019, the revenue of the Obligated Group available to pay debt service. The table also indicates the extent to which such revenues available to pay debt service would provide coverage for pro forma maximum annual debt service on all long-term debt of such entities after issuance of the Series 2020 Bonds and retirement of the debt to be refunded by such bonds.

#### DEBT SERVICE COVERAGE

	<b><u>Fiscal Year Ended September 30,</u></b>		
	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
	<i>(unaudited, \$ in thousands)</i>		
Excess of revenues over expenses	\$254,787	\$290,294	\$269,930
Less: Unrealized (gains)/losses on investments	(93,792)	(51,780)	(28,377)
Plus: Loss on defeasance	-	291	-
Plus: Depreciation and amortization	63,303	77,502	82,435
Plus: Interest	18,333	18,065	16,290
Plus: Minority interest expense/(income)	<u>10,732</u>	<u>9,149</u>	<u>8,807</u>
Available to pay debt service	\$253,363	\$343,521	\$349,084
Actual maximum annual debt service <sup>(1)</sup>	\$30,401	\$28,182	\$23,356
Historical coverage of actual maximum annual debt service	8.33x	12.19x	14.95x
Pro forma maximum annual debt service <sup>(1)*</sup>	\$33,726	\$33,726	\$33,726
Historical coverage of pro forma maximum annual debt service <sup>(2)*</sup>	7.51x	10.19x	10.35x

\* Preliminary, subject to change.

(1) Calculated on the assumptions set forth under "PRO FORMA ANNUAL DEBT SERVICE REQUIREMENTS" in Part I of this Official Statement. Interest on the Series 2020 Bonds was calculated at estimated market rates. Actual debt service in any year could exceed the amount indicated, and the difference could be substantial. Excludes guaranty indebtedness of the Foundation of approximately \$112 million. See Note 1 in the financial statements in APPENDIX B for a description of these guaranties. Pro forma maximum annual debt service excludes \$2.7 million of miscellaneous variable rate debt.

(2) If revenues and expenses of Cook Children's rather than the Obligated Group had been depicted, these ratios would be 7.69x, 10.63x and 10.54x, respectively.



## Capitalization of the Obligated Group

The chart below provides the outstanding debt of the Obligated Group as of September 30, 2019, both as actually outstanding and as adjusted to reflect the issuance of the Series 2020 Bonds.

### DEBT OF THE OBLIGATED GROUP

	<b>September 30, 2019</b>	
	<i>(in thousands)</i>	
	<b><u>Actual</u></b>	<b><u>Proforma*</u></b>
<b>Long-Term Debt – Fixed Rate:</b>		
Series 2010A Bonds <sup>(1)</sup>	\$92,165	-
Series 2013A Bonds <sup>(1)</sup>	68,950	68,950
Series 2014 Bonds <sup>(1)</sup>	151,990	151,990
Series 2020 Bonds <sup>(1)(2)</sup>	-	193,545
Fixed Rate Debt	<u>313,105</u>	<u>414,485</u>
<b>Long-Term Debt – Variable Rate Demand Debt:</b>		
Series 2010B Bonds <sup>(1)(3)</sup>	<u>29,840</u>	<u>29,840</u>
<b>Long-Term Debt – Variable Rate:</b>		
Miscellaneous Debt <sup>(4)</sup>	<u>2,658</u>	<u>2,658</u>
<b>Long-Term Debt – Other:</b>		
Bond Premium <sup>(5)</sup>	14,600	62,503
Fair Value of Interest Rate Swap Agreement	<u>7,401</u>	<u>7,401</u>
<b>Total Debt</b>	367,604	516,887
<b>Current Maturities of Long-Term Debt<sup>(6)</sup></b>	(6,810)	(6,810)
<b>Total Long-Term Debt</b>	<u>\$360,794</u>	<u>\$510,077</u>
<b>Unrestricted Net Assets</b>	\$3,124,904	\$3,124,904
<b>Total Capitalization*</b>	\$3,485,698	\$3,634,981
<b>Ratio of Long-Term Debt to Capitalization*</b>	10.4%	14.0%

\* Preliminary, subject to change.

(1) Debt incurred through issuance of limited obligation revenue bonds by governmental issuers. Proceeds of the debt were loaned to the Medical Center, and the debt is payable from loan payments by the Medical Center. The debt is secured by obligations issued under the Master Indenture.

(2) These are the Series 2020 Bonds offered pursuant to this Official Statement.

(3) These bonds are variable rate demand obligations with repurchase requirements. The Medical Center is obligated to purchase these bonds on demand, unless remarketed, and does not currently maintain any banking arrangements to provide funding for its repurchase obligation with respect to these bonds. See “BONDHOLDERS’ RISKS – Security and Enforceability – Risks Related to Variable Rate Securities” in Part I of this Official Statement.

(4) Includes various notes and capitalized leases. See APPENDIX B herein. Excludes guaranty indebtedness of the Foundation of approximately \$112 million. See Note 1 in the financial statements in APPENDIX B for a description of these guaranties.

(5) Bond premium is net of unamortized premium and unamortized discount. Pro forma bond premium includes unamortized premium of the Series 2010A Bonds and excludes impact of financing costs.

(6) Includes current maturities of long-term debt.

## Interest Rate Swaps

Periodically, Cook Children's may enter into agreements for derivative products such as swaps, caps, options, basis swaps, rate locks, and total return swaps. These agreements are only entered into with Health System board approval and are only used to achieve specific objectives related to the management of debt and investment risk. Cook Children's does not enter into derivative agreements for purposes of speculation.

The Health System entered into an interest rate swap transaction with Bank of America, N.A. to substantially hedge interest expense associated with the Series 2010B Bonds. The swap transaction is summarized in the following table:

SWAP TRANSACTION					
<u>Related Bonds</u>	<u>Initial Notional Amount</u>	<u>Final Date</u>	<u>Interest Rates</u>		<u>Counterparty</u>
			<u>Payable</u>	<u>Receivable</u>	
Series 2010B	\$29,816,000	2030	4.075%	75% of 1M LIBOR	Bank of America, N.A.

The Health System or the counterparty may terminate the swap transaction if the other party (or one of the specified affiliates) commits an event of default (including under other specified transactions and indebtedness) or certain acts of insolvency, or merges with a materially weaker entity, or may not legally perform its obligations under the agreement, or if the other party's credit ratings are withdrawn or decline below specified levels (Baa2/BBB). If either party terminates the transaction, the terminating party must pay or be paid a termination settlement based on quotations of the value of the transaction by leading dealers, regardless of which party was the defaulting or affected party. In addition, each party is obligated to post cash or securities with the other party equal to the portion of its settlement obligation from time to time in excess of a threshold amount that varies with its credit ratings. So long as a party's credit rating is at least Aa3/AA-, it need not post collateral. If the swap transaction is terminated or the Health System becomes obligated to post collateral, the Obligated Group could be jointly and severally obligated to pay (or post collateral for) a termination settlement amount, and the amount could be substantial, depending on market conditions. In addition, there can be no assurance that the Health System would receive any termination payment owed by the counterparty or would have sufficient credit and funds on hand to replace the hedge affected by the swap. See "BONDHOLDERS' RISKS – Market Risks and Interest Rate Swaps – Interest Rate Swaps" in Part I of this Official Statement.

The swap transaction is not pledged as security for the notes or bonds of any series. Accordingly, neither bondholders nor the Bond Trustee will have any priority rights to amounts payable under the swap transaction by the counterparty or any rights to enforce the counterparty's obligations to make swap payments.

## OTHER INFORMATION

### Insurance Coverage

The Health System provides professional liability coverage for the Medical Center through its wholly-owned captive insurance provider, the Indemnity Company. Coverage is provided under the policy on a claims-made basis. The maximum liability under the existing policy of \$75 million relating to the Medical Center is \$5 million per claim and \$20 million in the aggregate with \$70 million reinsured through the traditional reinsurance market. Prior to October 1, 2012, the maximum liability was \$7.5 million per claim and \$22.5 million in the aggregate under a \$72.5 million policy with \$67.5 million reinsured through the traditional reinsurance market. Effective October 1, 2014, a combined professional liability and general liability coverage was issued by the Indemnity Company, still with the same separate limits noted before. The general liability coverage is provided on an occurrence basis. The maximum liability under the existing general liability policy is \$1 million per claim and \$5 million in the aggregate.

In addition, the Health System provides medical professional liability of affiliated physician groups through the Indemnity Company. Coverage is provided under the policy on a claims-made basis. The maximum liability under the existing policy of \$75 million relating to affiliated physician groups is \$1 million per claim and \$3 million in the aggregate with \$70 million reinsured through the traditional reinsurance market.

Effective August 15, 2014, the Health System for the first time purchased information privacy and security liability insurance also known as cyber liability coverage through Beazley (Lloyd's). This coverage provides protection for liability from unauthorized disclosure or release of private information and related notification and

credit monitoring costs. Coverage is provided under this policy on a claims-made basis with a primary policy limit of \$10 million in the aggregate for each incident subject to a \$250,000 retention. Additionally, this primary policy provides coverage for two million notified individuals in the event of a breach response subject to 100 notified individuals' retention. Furthermore, additional excess cyber limits of \$70 million was included in the Medical Center's policy through the Indemnity Company, reinsured through the traditional reinsurance market. Effective October 1, 2017, a separate excess standalone cyber liability tower was purchased with \$30 million in standalone cyber limits and \$45 million in excess cyber legal liability limits which was included in the integrated excess program. Overall, the Health System purchases total primary and excess limits of \$80 million and 2 million notified individuals, respectively, with a retention of \$250,000 and 100 notified individuals, respectively.

Effective October 1, 2017, the Health System provides a medical stop loss deductible reimbursement policy through the Indemnity Company for \$500,000 excess of \$500,000.

Losses from asserted and unasserted claims are based on estimates that incorporate the entities' past experience as well as other considerations, including the nature of each claim or incident and relevant industry trend factors. The Health System has retained professional insurance actuarial consultants to assist it with determining the amounts to be deposited with the Indemnity Company as reserves and the estimated Indemnity Company liability. However, actual claims could differ from actuarial estimates, and the difference could be substantial and, if realized, materially adversely affect Cook Children's financial condition.

Additionally, the Health System has established a paid deductible loss insurance program to provide worker's compensation coverage for its employees. Risk in excess of the deductible amount provided by this program is insured under a separate worker's compensation policy. The Health System also maintains commercial insurance coverage against property and casualty losses, cyber liability, general liability, directors' and officers' liability, and managed care liability.

### **Litigation**

As of the date of this Official Statement, there was no pending or, to the knowledge of the management of Cook Children's, threatened litigation, including professional liability claims, that in the opinion of management involves any substantial risk of material liability in excess of available insurance coverage and self-insurance funds.

### **Retirement Plan**

Cook Children's maintains a defined contribution pension plan that covers substantially all full-time employees of Cook Children's. See Note 16 in the financial statements in APPENDIX B for a description of the funding status of the pension plan as of September 30, 2019.

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**APPENDIX B**

**CONSOLIDATED FINANCIAL STATEMENTS OF W. I. COOK FOUNDATION, INC. AND  
SUBSIDIARIES AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

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**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**  
Independent Auditor's Report and Consolidated Financial Statements  
September 30, 2019 and 2018

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**

**September 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Trustees  
W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries  
Fort Worth, Texas

We have audited the accompanying consolidated financial statements of W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries (Foundation), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries as of September 30, 2019 and 2018, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in *Note 23* to the consolidated financial statements, in 2019, the Foundation adopted Accounting Standards Update 2014-09, *Revenue from Contracts with Customers* (Topic 606) and Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The consolidating information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Dallas, Texas  
January 22, 2020

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Consolidated Balance Sheets

September 30, 2019 and 2018

(in thousands)

### Assets

	2019	2018
<b>Current Assets</b>		
Cash and cash equivalents	\$ 658,860	\$ 354,055
Short-term investments	79,035	79,512
Patient accounts receivable	167,524	193,986
Other current assets	84,770	67,231
Total current assets	990,189	694,784
<b>Assets Whose Use is Limited or Restricted</b>	19,643	17,870
<b>Long-term Investments</b>	2,135,694	2,110,049
<b>Property and Equipment, Net</b>	918,215	907,933
<b>Other Assets</b>	49,522	52,634
Total assets	<u>\$ 4,113,263</u>	<u>\$ 3,783,270</u>

### Liabilities and Net Assets

<b>Current Liabilities</b>		
Accounts payable	\$ 76,818	\$ 61,973
Medical claims accrued and payable	82,758	68,083
Estimated payable for professional liability		
self-insurance claims, current portion	4,942	2,074
Current portion of long-term debt outstanding	36,650	36,691
Accrued liabilities and other	123,973	106,336
Estimated payable to third-party payors	5,371	2,916
Total current liabilities	330,512	278,073
<b>Estimated Payable for Professional Liability</b>		
<b>Self-insurance Claims</b>	18,546	17,133
<b>Long-term Debt Outstanding</b>	359,201	361,966
Total liabilities	708,259	657,172
<b>Net Assets</b>		
Without donor restrictions		
Cook Children's	3,260,056	2,981,857
Noncontrolling interests	2,844	3,170
Total net assets without donor restrictions	3,262,900	2,985,027
With donor restrictions	142,104	141,071
Total net assets	3,405,004	3,126,098
Total liabilities and net assets	<u>\$ 4,113,263</u>	<u>\$ 3,783,270</u>

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended September 30, 2019 and 2018**

*(in thousands)*

	<b>2019</b>	<b>2018</b>
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>		
Patient service revenue	\$ 1,137,307	\$ 1,055,866
Premium and capitation revenue	564,884	546,073
Other revenue	129,812	116,861
Net assets released from restrictions used for operations	11,951	11,843
	<hr/>	<hr/>
Total revenues, gains and other support without donor restrictions	1,843,954	1,730,643
	<hr/>	<hr/>
<b>Expenses and Losses</b>		
Salaries and wages	644,720	611,058
Employee benefits	166,815	157,580
Medical claims expense	355,320	336,981
Operating supplies and expenses	374,873	374,725
Depreciation and amortization	86,543	81,879
Interest expense and fees	28,048	30,307
Loss (gain) on disposition of property and equipment	100	(491)
	<hr/>	<hr/>
Total expenses and losses	1,656,419	1,592,039
	<hr/>	<hr/>
<b>Operating Income</b>	187,535	138,604
	<hr/>	<hr/>
<b>Other Income (Expense)</b>		
Loss on extinguishment of debt	-	(292)
Contribution of net assets	-	14,101
Investment return	64,698	99,832
Change in net unrealized gains on investments	32,040	49,804
Change in fair value of interest rate swap	(2,683)	2,296
	<hr/>	<hr/>
Total other income	94,055	165,741
	<hr/>	<hr/>
<b>Excess of Revenues Over Expenses</b>	\$ 281,590	\$ 304,345
	<hr/>	<hr/>

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**  
**Consolidated Statements of Operations and Changes in Net Assets (Continued)**  
**Years Ended September 30, 2019 and 2018**

*(in thousands)*

	<b>2019</b>	<b>2018</b>
<b>Net Assets Without Donor Restrictions</b>		
Excess of revenues over expenses	\$ 281,590	\$ 304,345
Net assets released from restriction used for purchase of property and equipment	4,416	5,252
Contributions of or for purchase of property and equipment	1,000	3,500
Purchase of units from noncontrolling interest	(763)	(1,755)
Distributions to noncontrolling interests	(8,370)	(8,602)
	<u>277,873</u>	<u>302,740</u>
<b>Net Assets With Donor Restrictions</b>		
Change in beneficial interest in perpetual trust	(27)	725
Contribution of net assets	-	29,257
Contributions and investment return	17,426	40,066
Net assets released from restrictions	(16,366)	(17,096)
	<u>1,033</u>	<u>52,952</u>
<b>Change in Net Assets</b>	278,906	355,692
<b>Net Assets, Beginning of Year</b>	<u>3,126,098</u>	<u>2,770,406</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 3,405,004</u></u>	<u><u>\$ 3,126,098</u></u>

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2019 and 2018**

(in thousands)

	2019	2018
<b>Operating Activities</b>		
Change in net assets	\$ 278,906	\$ 355,692
Change in net assets attributable to noncontrolling interests	326	1,209
Change in net assets attributable to Cook Children's	279,232	356,901
Items not requiring (providing) operating cash flow		
Restricted contributions and investment income, long-term	(11,088)	(26,009)
Contribution of net assets	-	(43,358)
Contribution of or for purchase of property and equipment	(1,000)	(3,500)
Depreciation and amortization	86,543	81,879
Amortization of bond issuance costs and premium/discount	(2)	303
Change in beneficial interest in trusts	(27)	(725)
Loss (gain) on disposition of fixed assets	100	(491)
Net realized gains and net change in unrealized gains on investments	(65,499)	(133,501)
Change in fair value of interest rate swap	2,683	(2,296)
Noncontrolling interest	8,807	9,148
Changes in		
Patient accounts receivable	26,462	(53,806)
Other assets	(14,400)	(17,570)
Accounts payable	2,927	8,035
Accrued liabilities and other	32,312	20,492
Estimated payable to third-party payors	2,455	1,071
Estimated self-insurance liability	4,281	1,599
Net cash provided by operating activities	353,786	198,172
<b>Investing Activities</b>		
Purchase of investments	(517,376)	(824,933)
Sales of investments	555,934	660,800
Purchase of property and equipment	(84,073)	(134,615)
Proceeds from sale of property and equipment	66	29
Net cash used in investing activities	(45,449)	(298,719)
<b>Financing Activities</b>		
Proceeds from issuance of long-term debt	765	2,355
Debt principal and capital lease payments	(6,252)	(70,408)
Restricted contributions and investment income, long-term	11,088	26,009
Contribution of net assets (Note 20)	-	1,127
Contributions for purchase of property and equipment	-	70
Purchase of units from noncontrolling interest	(763)	(1,755)
Distributions to noncontrolling interest	(8,370)	(8,602)
Net cash used in financing activities	(3,532)	(51,204)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	304,805	(151,751)
<b>Cash and Cash Equivalents, Beginning of Year</b>	354,055	505,806
<b>Cash and Cash Equivalents, End of Year</b>	\$ 658,860	\$ 354,055
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 17,501	\$ 18,797
Capital acquisitions in accounts payable	\$ 20,370	\$ 8,452

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

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

#### ***Nature of Operations and Principles of Consolidation***

W.I. Cook Foundation, Inc. (Foundation) is a not-for-profit corporation located in Fort Worth, Texas, established to solicit, receive and manage contributions for the benefit of Cook Children's Medical Center.

The accompanying consolidated financial statements include the accounts of the Foundation and all companies owned and controlled by the Foundation including the following subsidiaries:

- **Cook Children's Health Care System (System)** – a not-for-profit corporation organized to provide administrative and management functions to subsidiaries. The Foundation is the sole member of the System. In 2019, Cook Children's Health Enterprises was formed, with the System as its sole member. CCHE is a not-for-profit corporation organized to own aircraft for the sole purpose of furthering the provision of health care services by Cook Children's Health Care System and its affiliates. There has been no activity in CCHE as of September 30, 2019. Additionally, the System participates in the Dallas Ft. Worth ACO, LLC (ACO), a joint venture with four non-related healthcare systems in the Dallas-Fort Worth area. The ACO has not had any significant activity as of September 30, 2019.
- **Cook Children's Medical Center (Medical Center)** – a not-for-profit corporation, which operates a 385-bed (444-bed license) children's hospital in Fort Worth, Texas. The System is the sole member of the Medical Center. The Medical Center provides inpatient and outpatient surgery services, emergency care, full service neonatal intensive care and pediatric intensive care services. Additionally, the Medical Center participates in two joint ventures with local physicians: a freestanding ambulatory surgical center organized as a limited liability company (Cook Children's Surgery Center) in Tarrant County, Texas, and a surgical center organized as a limited partnership (Pediatric Surgical Center) in Denton County, Texas.
- **Cook Children's Physician Network (Physician Network)** – a not-for-profit corporation organized as a multi-specialty physician network providing services to Fort Worth and surrounding communities. The System is the sole member of the Physician Network.
- **Cook Children's Health Plan (Health Plan)** – a not-for-profit corporation organized to participate in state-funded insurance programs and provide insurance coverage to eligible children in the North Texas area. The System is the sole member of the Health Plan.
- **Cook Children's Home Health (Home Health)** – a not-for-profit corporation organized to provide pediatric medical care in the patient's home. The System is the sole member of Home Health.
- **Cook Children's Child Study Center (CSC)** – a not-for-profit corporation organized to provide diagnosis, treatment, and education to children with complex developmental and behavioral disabilities. The Medical Center became the sole member of CSC in 2018.
- **Cook Children's Indemnity Company (Indemnity Company)** – a corporation organized under the laws of the Cayman Islands that holds an Unrestricted Class "B" Insurer's license under the provisions of the Cayman Islands insurance law. The principal activity of the Indemnity Company is the insurance of the Medical Center and Physician Network for

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

medical malpractice insurance risks. The Indemnity Company is wholly owned by the System.

- **Rosedale Office Building (ROB)** – a not-for-profit corporation organized to hold title to real and personal property that is used in association with the mission of the Foundation. There is no member. The ROB Board is nominated by the Trusteeship Committee of the Foundation. At all times, a majority of the ROB Board must also be members of the Board of Trustees of the Foundation.
- **Cook Children's Health Services, Inc. (Health Services)** – a corporation organized to hold Cook Children's businesses that are registered as for-profit corporations under the Texas Business Organization Code. Health Services is a wholly owned subsidiary of the System.

These companies are collectively referred to as "Cook Children's" in the consolidated financial statements unless specifically identified. All significant intercompany accounts and transactions have been eliminated in consolidation.

### **Noncontrolling Interests**

Noncontrolling interests represent the 41% interest in Cook Children's Surgery Center that Cook Children's did not own at both September 30, 2019 and 2018, and the 46% interest in Pediatric Surgical Center that Cook Children's did not own at both September 30, 2019 and 2018.

Changes in consolidated net assets without restrictions attributable to the controlling financial interest of Cook Children's and the noncontrolling interests are:

<i>(in thousands)</i>	<b>Total</b>	<b>Controlling Interest</b>	<b>Noncontrolling Interests</b>
<b>Balance, October 1, 2017</b>	\$ 2,682,287	\$ 2,677,908	\$ 4,379
Excess of revenues over expenses	304,345	295,197	9,148
Net assets released from restriction used for purchase of property and equipment	5,252	5,252	-
Contributions of or for purchase of property and equipment	3,500	3,500	-
Purchase of units from noncontrolling interests	(1,755)	-	(1,755)
Distributions to noncontrolling interests	(8,602)	-	(8,602)
Increase (decrease) in net assets without donor restriction	302,740	303,949	(1,209)
<b>Balance, September 30, 2018</b>	2,985,027	2,981,857	3,170
Excess of revenues over expenses	281,590	272,783	8,807
Net assets released from restriction used for purchase of property and equipment	4,416	4,416	-
Contributions of or for purchase of property and equipment	1,000	1,000	-
Purchase of units from noncontrolling interests	(763)	-	(763)
Distributions to noncontrolling interests	(8,370)	-	(8,370)
Increase (decrease) in net assets without donor restriction	277,873	278,199	(326)
<b>Balance, September 30, 2019</b>	\$ 3,262,900	\$ 3,260,056	\$ 2,844



# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***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 and Cash Equivalents***

Cook Children's considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents and money market mutual funds. At September 30, 2019 and 2018, these consisted primarily of money market accounts with brokers.

At September 30, 2019, Cook Children's cash accounts exceeded federally insured limits by approximately \$70,308,000.

### ***Investments and Investment Return***

Investments in equity and debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

Investments also include investments in alternative assets, such as hedge funds structured as limited liability corporations or partnerships. These funds are carried at fair value using net asset value as a practical expedient.

Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine those fair values, and believes the carrying amount of these investments is a reasonable estimate of fair value. The amount at which Cook Children's may be able to sell the investments may be different than the estimated carrying value.

Investment return includes dividend, interest and other investment income; realized gains and losses on investments carried at fair value; and realized gains and losses on other investments. Unrealized gains and losses on investments carried at fair value is reported separately in the statements of operations and changes in net assets. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without restrictions. Investment return related to endowments is included in net assets with restrictions until appropriated for expenditure. Other investment return is reflected in the accompanying consolidated statements of operations and changes in net assets with or without restrictions based upon the existence and nature of any donor or legally imposed restrictions.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***Assets Whose Use is Limited or Restricted***

Assets whose use is limited or restricted include: (1) assets held by trustees deferred for compensation agreements or held under bond indenture agreements and (2) assets set aside by the Board of Trustees (Board), which include the Woman's Board funds, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

### ***Patient Accounts Receivable***

Patient accounts receivable reflects the outstanding amount of consideration to which Cook Children's expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, Cook Children's bills third-party payers directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed.

### ***Inventories***

Inventories are comprised of medical, surgical and pharmaceutical supplies, and are valued at the lower of cost or market on a first-in, first-out basis. Inventories are included in other current assets in the accompanying consolidated balance sheets.

### ***Property and Equipment***

Property and equipment are stated at cost. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase capacities or extend useful life are capitalized.

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Average useful lives range from 10 – 40 years for buildings and improvements and 3 – 20 years for equipment.

Donations of property and equipment are reported at fair value as an increase in net assets without restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without restrictions when the donated asset is placed in service.

### ***Long-lived Asset Impairment***

Cook Children's evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2019 and 2018.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***Goodwill***

Cook Children's has goodwill related to the purchase of a majority interest in the Pediatric Surgical Center and the purchase of a physician practice. Goodwill is evaluated annually for impairment or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements. The total amount of goodwill held by Cook Children's was \$9,085,000 at both September 30, 2019 and 2018. No impairment was recognized for the years ended September 30, 2019 and 2018.

### ***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method. Unamortized cost at September 30, 2019 and 2018, was approximately \$4,143,000 and \$4,511,000, respectively, and is included as a reduction of long-term debt outstanding on the accompanying consolidated balance sheets.

### ***Interest Rate Swap Agreement***

Cook Children's has entered into an interest rate swap agreement (Swap) to reduce the effect of changes in cash flows primarily related to interest rate fluctuations on a portion of its variable interest rate debt.

The Swap is recognized on the accompanying consolidated balance sheets at its fair value. The net cash payments or receipts under the Swap are recorded as an increase or decrease to interest expense.

### ***Guaranty of Obligations***

Cook Children's, as an investor in entities controlled by Hawkins Way Capital, LLC (Hawkins Way), has entered into three guaranty agreements associated with a loan to Jefferson Street Hotel, LLC (Borrower), an entity controlled by principals of Hawkins Way and in which those principals hold equity interests. The loan has a maximum principal amount of \$112,000,000 and is for the construction and development of a hotel. Under the terms of the joint and several guaranty agreements, Cook Children's has an obligation for the prompt payment of the loan, an obligation to ensure that the Borrower commences, constructs, develops and completes the project in accordance with the terms and condition of the loan agreement, and an obligation for the timely payment of all carry costs and debt service when due pursuant to the terms of the loan agreement. These guaranty agreements will remain in place until July 7, 2022, provided that such date may be extended to July 7, 2024 subject to certain conditions more particularly described in the documents related to the underlying loan. As of January 22, 2020, Cook Children's has not been required to act under the terms of these guarantee agreements.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***Net Assets***

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The Board has designated, from net assets without donor or certain grantor restrictions, net assets for deferred compensation and bond indenture agreements as well as other net assets over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

### ***Patient Service Revenue***

Patient service revenue is recognized as Cook Children's satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which Cook Children's expects to be entitled in exchange for providing patient care. Cook Children's determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Cook Children's policies and implicit price concessions provided to uninsured patients.

Cook Children's determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies and historical experience by payor groups. Cook Children's determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations by third-party payors.

### ***Premium/Capitation Revenue***

The Health Plan provides health insurance coverage to enrollees through the Child Health Insurance Program (CHIP), the State of Texas Access Reform (STAR) and STAR Kids. STAR is the managed care program for Medicaid in selected Texas counties. STAR Kids provides Medicaid benefits to children and adults 20 and younger who have disabilities. These programs are designed for the low-income population and are financed by the state of Texas and the federal government. Under these agreements, the Health Plan receives monthly capitation payments based on the number of enrollees and capitation revenue is recognized in the month in which the enrollees are entitled to health care services and any adjustments are recorded as they become known. The Health Plan also receives delivery supplemental payments which are accrued as deliveries occur. The Health Plan makes fee-for-service payments to Cook Children's and other service providers for noncapitated services based on discounted fee schedules.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### **Medical Claims Expense**

Medical claims expense for services rendered to members of capitated programs is recognized as services are provided, including estimated amounts for claims incurred but not yet reported. The expenses are reported net of subscriber copay and deductible amounts and net of reimbursement from coordination of benefits arrangements. Reinsurance premiums, net of recoveries, are included in medical claims expense in the accompanying consolidated statements of operations and changes in net assets.

### **Charity Care**

The Medical Center, Physician Network and Home Health provide care without charge or at amounts less than its established rates to patients meeting certain criteria under its financial assistance policy. Because these providers do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as patient service revenue.

### **Contributions**

Contributions are provided to Cook Children's either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Cook Children's overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

### ***Split-interest Agreements***

Cook Children's holds irrevocable interests in various trusts established by donors. These interests are initially recorded in net assets with restrictions based on the nature of the donor's restriction and Cook Children's share of the fair value of the trust at the date Cook Children's was notified of the trust's existence.

For perpetual trust agreements, Cook Children's share of the fair value of underlying trust assets was approximately \$14,070,000 and \$14,097,000 at September 30, 2019 and 2018, respectively. The beneficial interests in trusts are included in other assets in the accompanying consolidated balance sheets. Increases or decreases in the net fair value of the trust are recorded as changes in net assets with restrictions in the accompanying consolidated statements of operations and changes in net assets. Distributions received from the earnings of the beneficial trust agreements are recorded as net assets with or without restrictions, as specified by the donor, in the period received.

### ***Self-funded Insurance***

Cook Children's maintains self-funded health insurance and workers' compensation insurance plans covering substantially all employees. Contributions are made to the administrators of the plans as claims are paid while expenses are accrued as incurred.

### ***Professional Liability Costs***

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

### ***Income Taxes***

The Foundation, System, Medical Center, Physician Network, Health Plan, Home Health, CSC and ROB have been recognized as exempt from income taxes under Section 501 of the Internal

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

Revenue Code (IRC) and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income.

The Pediatric Surgical Center is organized as a limited partnership (LP). The Cook Children's Surgery Center is organized as a limited liability company (LLC). Under provisions of the IRC, LLCs are taxed as partnerships. Taxable income or losses of partnerships is generally reported to the individual partner for inclusion in their respective tax returns. As such, no provision for federal income taxes is included in these consolidated financial statements for these entities.

Health Services is organized as a for-profit corporation and is subject to taxation through federal and state jurisdictions.

The Indemnity Company is incorporated under the laws of the Cayman Islands and no taxes are levied in the Cayman Islands.

Cook Children's files an IRS Form 990 for all its nonprofit entities in the U.S. Federal jurisdiction. An IRS Form 1120 is filed for Health Services along with requisite state tax forms.

### ***Operating Income***

Cook Children's uses operating income as an intermediate reporting measure on the accompanying consolidated statements of operations and changes in net assets. Amounts excluded from operating income include investment return, changes in unrealized gains and losses on trading securities, change in fair value of interest rate swap and other nonoperating activities.

### ***Excess of Revenues Over Expenses***

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in net assets without restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include transactions with noncontrolling interest owners and contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets).

### ***Transfers Between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

## **Note 2: Patient Service Revenue**

Patient service revenue is reported at the amount that reflects the consideration to which Cook Children's expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, Cook Children's bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility and

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

patient accounts receivable are due in full when billed. Revenue is recognized as performance obligations are satisfied.

### ***Performance Obligations***

Performance obligations are determined based on the nature of the services provided by Cook Children's. Revenue for performance obligations satisfied over time is recognized based on charges accumulated over the period of service. Cook Children's believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in Cook Children's receiving inpatient acute care services or patients receiving services in its outpatient centers. Cook Children's measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and Cook Children's does not believe it is required to provide additional goods related to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Cook Children's has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

### ***Transaction Price***

Cook Children's determines the transaction price based on standard charges for goods and services provided, reduced by explicit price concessions which consist of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with Cook Children's policy and implicit price concessions provided to uninsured patients. Cook Children's determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. Cook Children's determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

### ***Third-Party Payors***

The Medical Center, Physician Network, Home Health and CSC have agreements with third-party payors that provide for payments to the companies at amounts different from their established rates.

The majority of Medicaid beneficiaries in a six-county region around the Medical Center's service area are required to enroll in a Medicaid managed care plan with various health maintenance organizations (HMO). These HMOs (including the Health Plan) contract with the Medicaid



# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

program to provide primary, acute care and psychiatric services to Medicaid beneficiaries. The Medical Center has contracted with certain of these HMOs to provide services to pediatric Medicaid recipients through the Medical Center and Physician Network for a fee for service rate.

Medical Center inpatient services and some outpatient services rendered to Medicaid program beneficiaries not enrolled in the Medicaid managed care plan are reimbursed at prospectively determined rates. The Medical Center outpatient services that are not reimbursed based on the prospective rate structure are reimbursed based on a cost reimbursement methodology at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements have been determined.

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

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Cook Children's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Cook Children's. In addition, the contracts Cook Children's has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to cost report or other audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Cook Children's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known based on newly available information or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price were not significant in 2019 and 2018.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***Patient and Uninsured Payors***

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Cook Children's also provides services to uninsured patients and offers those uninsured patients a discount from standard charges. Cook Children's estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended September 30, 2019 and 2018, changes in estimates of implicit price concessions, discounts and contractual adjustments for performance obligations satisfied in prior years was not material. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with Cook Children's mission, care is provided to patients regardless of their ability to pay. Therefore, Cook Children's has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances, such as copays and deductibles.

The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Cook Children's expects to collect based on its collection history with those patients. For the years ended September 30, 2019 and 2018, implicit price concessions were approximately \$77,656,000 and \$64,682,000, respectively.

Patients who meet Cook Children's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

### ***Refund Liabilities***

From time to time Cook Children's will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2019 and 2018, Cook Children's has a liability for refunds to third-party payors and patients recorded of approximately \$7,632,000 and \$14,253,000, respectively, which is reflected in the consolidated balance sheets as a component of accounts payable.

### ***Revenue Composition***

Cook Children's has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the following factors: payors and service lines. Tables providing details of these factors are presented below.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2019 and 2018

The composition of patient service revenue by primary payor for the years ended September 30, 2019 and 2018 is as follows:

	2019					
	Medical Center	Physician Network	Home Health	CSC	Eliminations	Total
<i>(in thousands)</i>						
Medicaid/other government payors	\$ 82,923	\$ 2,202	\$ 551	\$ 3	\$ -	\$ 85,679
Medicaid managed care	292,112	36,751	12,310	222	(148,266)	193,129
Other third-party payors	639,963	156,740	30,781	3,373	-	830,857
Self-pay	20,848	5,529	1,219	46	-	27,642
	<u>\$ 1,035,846</u>	<u>\$ 201,222</u>	<u>\$ 44,861</u>	<u>\$ 3,644</u>	<u>\$ (148,266)</u>	<u>\$ 1,137,307</u>
	2018					
	Medical Center	Physician Network	Home Health	CSC	Eliminations	Total
<i>(in thousands)</i>						
Medicaid/other government payors	\$ 56,080	\$ 4,032	\$ 728	\$ 3	\$ -	\$ 60,843
Medicaid managed care	26,419	39,704	13,836	349	(140,158)	(59,850)
Other third-party payors	838,263	143,381	24,246	2,321	-	1,008,211
Self-pay	39,300	5,399	1,925	38	-	46,662
	<u>\$ 960,062</u>	<u>\$ 192,516</u>	<u>\$ 40,735</u>	<u>\$ 2,711</u>	<u>\$ (140,158)</u>	<u>\$ 1,055,866</u>

Revenue from patients' deductibles and coinsurance are included in the categories presented above based on the primary payor.

The composition of patient service revenue based on service lines for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Medical Center - inpatient	\$ 603,910	\$ 561,824
Medical Center - outpatient	431,936	398,238
Physician Network	201,222	192,516
Home Health	44,861	40,735
CSC	3,644	2,711
Eliminations	<u>(148,266)</u>	<u>(140,158)</u>
	<u>\$ 1,137,307</u>	<u>\$ 1,055,866</u>

### Contract Balances

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Hospital at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Management believes Cook Children's has an unconditional right to payment on patients who are still receiving inpatient care at the end of the

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

year. As such, there are no contract assets for the years ended September 30, 2019 and 2018. These patients are included in patient accounts receivable in the consolidated balance sheets for the years ended September 30, 2019 and 2018.

### ***Financing Component***

Cook Children's has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third party payors for the effects of a significant financing component due to Cook Children's expectation that the period between the time the service is provided to a patient and the time the patient or a third-party payer pays for that service will be one year or less.

However, Cook Children's does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

### **Note 3: Supplemental Medicaid Funding Programs**

The Medical Center receives funds under the Medicaid Disproportionate Share (DSH) program. The DSH program provides supplemental payments to qualifying hospitals that provide a disproportionate level of care to patients who are either uninsured or qualify for the Medicaid program. DSH proceeds recognized as a component of other operating revenue was approximately \$14,982,000 and \$14,660,000 for the years ended September 30, 2019 and 2018, respectively. DSH payments are limited by a federally determined Hospital Specific Limit (HSL) calculation and are subject to recoupment based on subsequent audit results.

The Medical Center participates in, and receives payments from, the Texas Medicaid 1115 Healthcare Transformation Waiver (1115 Waiver) for both Uncompensated Care (UC) and the Delivery System Reform Incentive Payment (DSRIP). Total 1115 Waiver revenue recognized as a component of other operating revenue in 2019 and 2018 was approximately \$51,256,000 and \$46,021,000, respectively. Approximately \$6,590,000 and \$11,975,000 was recorded as a receivable in other current assets at September 30, 2019 and 2018, respectively.

The funding is subject to recoupment based on future audits and is not necessarily representative of funding the Medical Center will receive in future years. The 1115 Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017, as the United States Department of Health and Human Service (HHSC) and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan requires a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period. Effective September 1, 2019, UC will be allocated based solely on the amount of charity care provided by the hospital. As a result, the Medical Center expects a significant reduction in UC payments beginning in fiscal year 2020. Changes in the funding mechanics of these programs could have an adverse impact on operating results.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

**September 30, 2019 and 2018**

On March 1, 2018, the Medical Center began participating in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct Medicaid managed care organizations (including the Health Plan) in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospital, increasing revenue from services provided to Medicaid managed care beneficiaries. The state's share of UHRIP is funded through intergovernmental transfers (IGT) from certain hospitals. Revenue from UHRIP is recognized as a component of patient service revenue.

The UHRIP and DSH programs have historically utilized a Medicaid shortfall methodology to determine program eligibility and provider capacity for drawing down these supplemental funds. Due to a CMS administrative rule change, and the outcomes of numerous related lawsuits, the new methodology that is used to calculate the Medicaid shortfall could lower or eliminate the Medical Center's ability to draw down UHRIP and DSH program funds.

During 2018, the Medical Center began participating in a Local Provider Participation Fund (LPPF). The purpose of the LPPF is to generate the non-federal share of certain supplemental Medicaid funding programs through an assessment on the patient revenues of nonpublic hospitals in a particular jurisdiction, not to exceed 6%.

In 2019 and 2018, the Medical Center incurred approximately \$22,275,000 and \$11,785,000 in LPPF assessment expense, respectively, which is reflected as a component of operating supplies and expenses in the consolidated statements of operations and changes in net assets. The LPPF expense historically incurred may not be reflective of expenses to be incurred in future years.

The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS, and the programs could be modified or terminated based on new legislation or regulation in future periods.

### **Note 4: Concentration of Credit Risk**

#### ***Accounts Receivable***

Cook Children's grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at September 30, 2019 and 2018, is summarized as follows:

	<b>2019</b>	<b>2018</b>
Medicaid/other government payors	6%	9%
Medicaid managed care	34%	37%
Other third-party payors	48%	45%
Self-pay	12%	9%
	<u>100%</u>	<u>100%</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### Note 5: Investments and Investment Return

#### ***Assets Whose Use is Limited or Restricted***

Assets limited as to use are summarized below:

*(in thousands)*

	2019	2018
Internally designated, Woman's Board		
Cash and cash equivalents	\$ 685	\$ 791
Held by trustee under deferred compensation agreement		
Mutual funds	18,958	17,079
Total assets whose use is limited or restricted	<u>\$ 19,643</u>	<u>\$ 17,870</u>

#### ***Investments***

Investments at September 30, 2019 and 2018, were as follows:

*(in thousands)*

	2019	2018
Debt securities		
U.S. Treasury obligations	\$ 223,792	\$ 194,980
U.S. agency obligations	70,108	60,207
Investment grade corporate bonds	106,127	145,795
International agency obligations	24,029	35,722
Mortgage-backed securities	32,757	14,276
Commercial paper	5,717	5,514
Equity securities		
Consumer discretionary and staples	110,026	121,126
Energy and utilities	8,040	11,467
Financials	49,174	45,562
Health care	55,759	39,878
Industrials and materials	83,281	140,079
Information technology	85,919	85,659
Real estate	3,328	3,105
Communication services	22,904	18,415
Certificates of deposit	33,294	-
Mutual funds	9,351	8,021
Real estate	19,253	23,307
Alternative investments	1,271,870	1,236,448
	<u>\$ 2,214,729</u>	<u>\$ 2,189,561</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### **Alternative Investments**

Alternative investments include investments in hedge funds, limited partnerships and offshore investment funds. These funds may invest in certain types of financial instruments, including futures and forward contracts, options and securities sold but not yet purchased, intended to hedge against changes in the market value of investments. These financial instruments, which involve varying degrees of risk, may result in loss due to changes in market risk. Cook Children's is invested in 63 different alternative investment relationships at September 30, 2019.

Cook Children's has elected to account for its investments in alternative investments using the fair value option. Total alternative investments at September 30, 2019 and 2018, are \$1,271,870,000 and \$1,236,448,000, respectively. Changes in fair value of items for which the fair value option has been elected are reported as unrealized gains and losses in the accompanying consolidated statements of operations and changes in net assets. The fair value change in 2019 and 2018 was an increase/(decrease) of \$(11,504,000) and \$37,477,000, respectively.

Alternative investments held at September 30, 2019 and 2018, and unfunded commitments as of September 30, 2019, are as follows:

*(in thousands)*

	2019	2018	Unfunded Commitments
Equity long/short hedge funds (A)	\$ 191,110	\$ 238,109	\$ -
Multi-strategy hedge funds (B)	-	32	-
Real estate funds (C)	120,097	116,132	77,881
Private investment funds (D)	716,474	641,085	269,279
Single-strategy credit/hedge funds (E)	90,138	86,553	-
Global equity funds (F)	79,145	84,903	-
Long emerging market funds (G)	74,906	69,634	-
	<u>\$ 1,271,870</u>	<u>\$ 1,236,448</u>	<u>\$ 347,160</u>

- (A) This category includes investments in hedge funds that take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. These funds may use derivatives, leverage and short positions in an attempt to maximize total returns, regardless of market conditions.
- (B) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio may include investments in U.S. common stocks, debt instruments, global real estate projects and arbitrated investments.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

**September 30, 2019 and 2018**

- (C) This category includes several real estate/land funds that invest primarily in U.S. commercial real estate. These investments can never be redeemed with the funds. Distributions from each fund will be made as the underlying investments of the funds are liquidated. It is estimated the underlying assets of the funds will be liquidated over the next seven to ten years.
- (D) This category includes several private equity and debt funds that invest primarily in nonlisted companies. These investments cannot be redeemed until 3 – 15 years after the closing date of the fund. The nature of the investments in this category is that distributions are received through the liquidation of underlying assets of the fund, which is expected to occur over the course of the next 3 – 15 years.
- (E) This category includes several funds that invest in limited types of debt instruments, including mortgage-related securities. These funds' objective is to seek current income as well as capital appreciation. These funds may engage in hedging and other investment strategies to pursue their investment objectives. Funds may be redeemed within 1 – 3 years with notices ranging from 45 – 60 days after the respective lockup period for redemption.
- (F) This category includes funds that take long positions in equity of corporations in the United States and/or outside the United States. Typically these types of investments do not have lockup periods.
- (G) This category includes funds that take long equity positions in corporations that are based in countries designated as Emerging, which is contingent on factors such as gross domestic product per capita, local government regulations, perceived investment risk, foreign ownership limits and capital controls. These investments can have slightly lower liquidity and higher volatility than other general global equity investments given the size and geopolitical and economic standing of the markets in which they are located.

Investments at September 30, 2019 and 2018, are reflected in the accompanying consolidated balance sheets as follows:

*(in thousands)*

	<b>2019</b>	<b>2018</b>
Short-term investments	\$ 79,035	\$ 79,512
Long-term investments	2,135,694	2,110,049
	<u>\$ 2,214,729</u>	<u>\$ 2,189,561</u>



# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Total investment return for the years ended September 30, 2019 and 2018, is summarized as follows:

*(in thousands)*

	2019	2018
Interest and dividend income	\$ 34,741	\$ 21,524
Net unrealized gains on investments	33,800	51,698
Realized gains on investments	31,699	81,803
Mineral income and other	939	739
	<u>\$ 101,179</u>	<u>\$ 155,764</u>

Total investment return for the years ended September 30, 2019 and 2018, is reflected in the accompanying consolidated statements of operations and changes in net assets as follows:

*(in thousands)*

	2019	2018
Net assets without donor restrictions		
Investment return	\$ 64,698	\$ 99,832
Current year change in net unrealized gains on investments	32,040	49,804
Other	69	126
Net assets with donor restrictions	4,372	6,002
	<u>\$ 101,179</u>	<u>\$ 155,764</u>

## Note 6: Pledges Receivable

Pledges receivable were \$12,968,000 and \$15,835,000 at September 30, 2019 and 2018, respectively, and are shown below. All of the pledges receivable were restricted at September 30, 2019 and 2018.

*(in thousands)*

	2019	2018
Unconditional contributions expected to be collected		
Due within one-year	\$ 11,440	\$ 11,245
Due in one to five years	1,770	5,119
	<u>13,210</u>	<u>16,364</u>
Less: allowance for uncollectible pledges	112	120
Less: unamortized discount	131	409
	<u>\$ 12,967</u>	<u>\$ 15,835</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Pledges receivable were discounted at a rate of 4.4% at both September 30, 2019 and 2018. The receivables due within one-year are included with other current assets while the remaining receivables are included with other assets on the accompanying consolidated balance sheets.

### Note 7: Property and Equipment

Property and equipment at September 30, 2019 and 2018, is summarized as follows:

*(in thousands)*

	2019	2018
Land and improvements	\$ 107,287	\$ 99,772
Buildings and improvements	1,003,707	983,518
Equipment	390,962	378,634
	<u>1,501,956</u>	<u>1,461,924</u>
Less accumulated depreciation and amortization	651,497	567,422
	<u>850,459</u>	<u>894,502</u>
Construction-in-progress	67,756	13,431
	<u>\$ 918,215</u>	<u>\$ 907,933</u>

### Note 8: Medical Claims and Self-funded Insurance

Cook Children's retains professional actuaries to assist in determining the required reserves for its incurred, but not reported, liability for the medical claims covered by the Health Plan, the self-funded employee health insurance, and workers' compensation insurance programs. It is reasonably possible that Cook Children's estimate will change by a material amount in the near term.

CCIC issued a stop loss policy to Cook Children's for medical and prescription drug expenses related to its self-funded employee health insurance. The individual annual limit is \$500,000 after a stop loss deductible of \$500,000 per individual from October 1, 2018 to September 30, 2019.

Medical claims accrued and payable at September 30, 2019 and 2018, are summarized as follows:

*(in thousands)*

	2019	2018
Medical claims	\$ 70,249	\$ 55,766
Employee health insurance	9,932	9,982
Workers' compensation insurance	2,577	2,335
	<u>\$ 82,758</u>	<u>\$ 68,083</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### Note 9: Professional Liability Self-insurance

Cook Children's provides malpractice coverage for the Medical Center and Physician Network through its wholly owned captive insurance provider, the Indemnity Company. Losses from asserted and unasserted claims are based on estimates that incorporate the entities' past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Cook Children's has retained professional actuarial insurance consultants to assist with determining the amounts to be deposited with the Indemnity Company as reserves and the estimated Indemnity Company liability. It is reasonably possible that the estimate of these losses will change by a material amount in the near term.

Amounts accrued and payable on an undiscounted basis at September 30, 2019 and 2018, were \$23,488,000 and \$19,207,000, respectively.

### Note 10: Long-term Debt

*(in thousands)*

	2019	2018
Series 2014 Revenue Bonds (A)	\$ 151,990	\$ 154,765
Series 2013A Revenue Bonds (B)	68,950	68,950
Series 2010A Revenue Bonds (C)	92,165	94,685
Series 2010B Revenue Bonds (D)	29,840	29,840
Notes payable (E)	32,390	32,390
Other obligations	2,658	2,852
	<u>377,993</u>	<u>383,482</u>
Net bond premium	14,600	14,969
	<u>392,593</u>	<u>398,451</u>
Fair value of interest rate swap agreement	7,401	4,718
Unamortized debt issuance cost	(4,143)	(4,512)
Current maturities	<u>(36,650)</u>	<u>(36,691)</u>
	<u><u>\$ 359,201</u></u>	<u><u>\$ 361,966</u></u>

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

- (A) \$164,640,000 original issue Series 2014 Tarrant County Cultural Education Facilities Finance Corporation (Cook Children's Medical Center) Hospital Revenue Bonds (2014 Bonds); interest at 5%; serial bonds paid annually beginning in 2014 through 2034; term bonds paid annually in 2039 and 2044; secured by a promissory note from the Obligated Group. The 2014 Bonds may be called at Cook Children's election at 100% of the par on or after December 1, 2023. The Medical Center used the proceeds from the sale of the 2014 Bonds to pay for the: (i) costs of constructing and equipping certain health facilities and (ii) cost of issuance of the 2014 Bonds. Unamortized debt issuance costs were \$1,573,000 and \$1,608,000 at September 30, 2019 and 2018, respectively. The effective interest rate was 4% for the years ended September 30, 2019 and 2018.
- (B) \$68,950,000 original issue Series 2013A Tarrant County Cultural Education Facilities Finance Corporation (Cook Children's Medical Center) Hospital Revenue Bonds (2013A Bonds); interest at 5.25%; principal payable annually beginning in 2035 through 2039; secured by a promissory note from the Obligated Group (see below). The 2013A Bonds may be called at Cook Children's election at 100% of par on any date on or after December 1, 2023. The Medical Center used the proceeds from the sale of the 2013A Bonds to redeem a portion of the 2010B Bonds, all of the 2010C Bonds and pay the costs of issuance of the 2013A Bonds. Unamortized debt issuance costs were \$932,000 and \$959,000 at September 30, 2019 and 2018, respectively. The effective interest rate was 4.8% for the years ended September 30, 2019 and 2018.
- (C) \$129,660,000 original issue Series 2010A Tarrant County Health Facilities Development Corporation (Cook Children's Medical Center Project) Hospital Revenue Bonds (2010A Bonds); interest at rates ranging from 4.25% – 5%; serial bonds paid annually between 2010 and 2025; term bonds paid annually in 2030, 2033 and 2036; secured by a promissory note from the Obligated Group. The 2010A Bonds may be called at Cook Children's election at 100% of par on any date on or after December 1, 2019. The Medical Center used the proceeds from the sale of the 2010A Bonds to pay: (i) costs of the development, construction and equipping of certain health facilities and (ii) costs of issuance of the 2010A Bonds. Unamortized debt issuance costs were \$1,397,000 and \$1,453,000 at September 30, 2019 and 2018, respectively. The effective interest rate was 4% for the years ended September 30, 2019 and 2018.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

- (D) \$64,615,000 original issue Series 2010B Tarrant County Health Facilities Development Corporation (Cook Children's Medical Center Project) Hospital Revenue Bonds (2010B Bonds); variable interest determined weekly by a remarketing agent (1.61% at September 30, 2019); annual mandatory principal payments beginning in 2024 through 2030; secured by a promissory note from the Obligated Group. The 2010B Bonds may be called at Cook Children's election at 100% of par prior to their stated maturity. The Medical Center used the proceeds from the sale of the 2010B Bonds to pay: (i) costs of the development, construction and equipping of certain health facilities and (ii) costs of issuance of the 2010B Bonds. These bonds include a put option that allows a bond holder to tender the bonds for payment each week. If tendered bonds are not remarketed, Cook Children's must repay the bond holder. During 2013, a portion of the 2010B Bonds with original maturity dates in 2035 through 2039 were redeemed with proceeds of the 2013A Bonds. Unamortized debt issuance costs were \$176,000 and \$188,000 at September 30, 2019 and 2018, respectively. The effective interest rate was 4% for the years ended September 30, 2019 and 2018.
- (E) Notes payable to various lenders (Notes); interest at rates ranging from 1.12% – 1.25%; principal payable quarterly beginning in 2021 through 2042. The Notes may be prepaid at the option of Cook Children's after the seventh anniversary of the date of the Notes. The proceeds from the Notes were used to acquire land and construct a new administrative building. The Notes were issued as part of an integrated financing structure developed under the New Markets Tax Credit (NMTC) program pursuant to Section 45D of the IRC and the regulations, compliance and reporting requirements thereunder. Unamortized debt issuance costs were \$64,000 and \$303,000 at September 30, 2019 and 2018, respectively. The effective interest rate was 1.3% for the years ended September 30, 2019 and 2018.

The Obligated Group is comprised of the System, Medical Center, Foundation and Physician Network. The Indenture and Loan Agreements place limitations on the Obligated Group's ability to incur additional debt and requires that the Obligated Group meet certain measures of financial performance (including a debt service coverage ratio of 110%) as long as the bonds are outstanding.

At the date of issuance of the 2010B Bonds, Cook Children's covenanted to maintain sufficient liquidity to repay the bonds in the event of a remarketing failure. Cook Children's is responsible to provide sufficient liquidity to cover a failed remarketing event, and as a result, the principal balance of the 2010B bonds remaining at September 30, 2019 and 2018, have been classified as a current liability in the consolidated balance sheets. Should Cook Children's be required to fund non-remarketed 2010B Bonds, the potential maturities would be different than scheduled maturities.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following table compares the potentially accelerated maturities and scheduled maturities of Cook Children's debt at September 30, 2019:

<i>(in thousands)</i>	<b>Accelerated Maturities</b>	<b>Scheduled Maturities</b>
2020	\$ 36,650	\$ 6,810
2021	7,335	7,335
2022	7,634	7,634
2023	7,817	7,817
2024	8,123	8,123
Thereafter	310,434	340,274
	<u>\$ 377,993</u>	<u>\$ 377,993</u>

### Note 11: Derivative Financial Instrument

Cook Children's has entered an interest rate swap agreement, the purpose of which is to reduce the variability of interest payments on a portion of its variable rate demand bonds. The swap provides for Cook Children's to receive interest from the counterparty at 75% of LIBOR and to pay interest to the counterparty at a fixed rate of 4.075% on a notional amount of \$29,816,000 at both September 30, 2019 and 2018. Under the agreement, Cook Children's pays or receives the net interest amount monthly, with monthly settlements included in interest expense. The agreement expires on December 1, 2030.

All changes in the fair value of the swap are recorded as a component of other income (expense).

The table below presents certain information regarding Cook Children's interest rate swap agreement:

<i>(in thousands)</i>	<b>2019</b>	<b>2018</b>
Fair value of swap agreement	\$ (7,401)	\$ (4,718)
Balance sheet location of fair value amount	Long-term debt	Long-term debt
Net settlement payments	\$ (678)	\$ (815)
Gain (loss) recognized in consolidated statements of operations and changes in net assets	\$ (2,683)	\$ 2,296
Location of gain (loss) recognized in consolidated statements of operations and changes in net assets	Other income (expense)	Other income (expense)

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### Note 12: Net Assets

#### ***Net Assets with Donor Restrictions***

Net assets with donor restrictions at September 30 are restricted for the following purposes or periods:

*(in thousands)*

	<b>2019</b>	<b>2018</b>
Subject to expenditure for specified purpose		
Indigent care	\$ 58	\$ 58
Property, equipment and other	<u>32,722</u>	<u>35,133</u>
	<u>32,780</u>	<u>35,191</u>
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Endowment requiring income to be used for restricted purposes	12,894	11,035
Subject to spending policy and appropriation		
Investments to be held in perpetuity, the income is expendable	<u>82,360</u>	<u>80,748</u>
Total endowments	<u>95,254</u>	<u>91,783</u>
Not subject to spending policy or appropriations		
Beneficial interests in perpetual trusts	<u>14,070</u>	<u>14,097</u>
	<u>\$ 142,104</u>	<u>\$ 141,071</u>

#### ***Net Assets Without Donor Restrictions***

Net assets without donor restrictions at September 30 have been designated for the following purposes:

*(in thousands)*

	<b>2019</b>	<b>2018</b>
Undesignated	\$ 3,198,348	\$ 2,924,158
Board-designated endowment funds	44,909	42,999
Board-designated - Women's Board	685	791
Held by trustee under deferred compensation agreement	<u>18,958</u>	<u>17,079</u>
	<u>\$ 3,262,900</u>	<u>\$ 2,985,027</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### **Net Assets Released from Restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

(in thousands)

	2019	2018
Satisfaction of purpose restrictions		
Property, equipment and other	\$ 14,918	\$ 15,364
Release of appropriated endowment amounts with purpose restrictions	1,448	\$ 1,732
	<u>\$ 16,366</u>	<u>\$ 17,096</u>

### **Note 13: Endowment**

Cook Children's endowment consists of approximately 55 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Cook Children's governing body has interpreted the state of Texas' *Uniform Prudent Management of Investment Funds Act* (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Cook Children's classifies as net assets with restrictions: (a) the original value of gifts donated to the with restriction endowment, (b) the original value of subsequent gifts to the with restriction endowment and (c) accumulations to the with restriction endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of donor-restricted endowment funds is classified as net assets with restrictions until those amounts are appropriated for expenditure by Cook Children's in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Cook Children's considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Cook Children's and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments



# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

6. Other resources of Cook Children's
7. Investment policies of Cook Children's

The composition of net assets by type of endowment fund at September 30, 2019 and 2018, was:

<i>(in thousands)</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2019</b>			
Donor-restricted endowment funds	\$ -	\$ 95,254	\$ 95,254
Board-designated endowment funds	44,909	-	44,909
	<u>44,909</u>	<u>-</u>	<u>44,909</u>
Total endowment funds	<u>\$ 44,909</u>	<u>\$ 95,254</u>	<u>\$ 140,163</u>
<b>2018</b>			
Donor-restricted endowment funds	\$ -	\$ 91,783	\$ 91,783
Board-designated endowment funds	42,999	-	42,999
	<u>42,999</u>	<u>-</u>	<u>42,999</u>
Total endowment funds	<u>\$ 42,999</u>	<u>\$ 91,783</u>	<u>\$ 134,782</u>

Changes in endowment net assets for the years ended September 30, 2019 and 2018, were:

<i>(in thousands)</i>	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>2019</b>			
Endowment net assets, beginning of year	\$ 42,999	\$ 91,783	\$ 134,782
Investment return			
Investment income	1,180	2,622	3,802
Net appreciation	825	1,751	2,576
	<u>2,005</u>	<u>4,373</u>	<u>6,378</u>
Total investment return	<u>2,005</u>	<u>4,373</u>	<u>6,378</u>
Contributions	-	546	546
Appropriation of endowment assets for expenditure	(95)	(1,448)	(1,543)
	<u>1,910</u>	<u>3,471</u>	<u>5,381</u>
Endowment net assets, end of year	<u>\$ 44,909</u>	<u>\$ 95,254</u>	<u>\$ 140,163</u>

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

(in thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>2018</b>			
Endowment net assets, beginning of year	\$ 39,735	\$ 55,275	\$ 95,010
Investment return			
Investment income	2,136	4,122	6,258
Net appreciation	1,215	1,880	3,095
Total investment return	3,351	6,002	9,353
Contributions	-	3,938	3,938
Contribution of net assets	-	28,300	28,300
Appropriation of endowment assets for expenditure	(87)	(1,732)	(1,819)
	3,264	36,508	39,772
Endowment net assets, end of year	\$ 42,999	\$ 91,783	\$ 134,782

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level Cook Children's is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets with donor restrictions and totaled \$0 at both September 30, 2019 and 2018.

Cook Children's has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds that Cook Children's must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds.

Under Cook Children's policies, endowment assets are invested in a manner that is intended to produce results that is equal to a return hurdle defined as the spending rate, inflation rate and the management cost of the endowment on an annual basis while assuming a prudent level of investment risk.

To satisfy its long-term rate of return objectives, Cook Children's relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). Cook Children's targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### **Note 14: Notes Receivable**

In conjunction with its participation in the NMTC program, Cook Children's made leveraged loans to a NMTC investment fund. The notes bear interest at an annual rate of 1% and are payable in quarterly installments from 2021 through 2042. The notes receivable balances were \$24,220,000 at both September 30, 2019 and 2018. The notes may be paid in full prior to the scheduled maturity after seven years from the effective date. Through participation in the NMTC structure, Cook Children's projects a net benefit of approximately \$5,100,000 over the expected life of the program.

### **Note 15: Charity Care**

The Medical Center, Physician Network and Home Health maintain records which identify and monitor the level of charity care they provide. These records include charges and costs for services and supplies furnished under the financial assistance policies. The cost of charity care provided during the years ended September 30, 2019 and 2018, totaled \$16,192,000 and \$8,901,000, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

### **Note 16: Retirement Plan**

Cook Children's has a defined contribution pension plan covering substantially all employees. The Board determines the amount that Cook Children's contributes to the plan. Cook Children's contributes a maximum of 7.50% of the participating employees' salaries, which is fully vested after three years. Retirement plan expense was \$29,708,000 and \$26,275,000 for 2019 and 2018, respectively.

Cook Children's has also established a defined contribution tax-deferred annuity plan for the purpose of purchasing annuity contracts for its employees pursuant to Section 403(b) of the IRC, as amended. The program is available to all employees. Cook Children's does not contribute to this plan.

Cook Children's also has a nonqualified deferred compensation plan organized under Section 457(b) of the IRC for certain employees. Benefits generally vest immediately. The assets of the plan are recorded in assets whose use is limited in the accompanying consolidated balance sheets and are approximately \$18,958,000 and \$17,079,000 at September 30, 2019 and 2018, respectively. There are liabilities of the same amounts recorded in accrued liabilities in the accompanying consolidated balance sheets.

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
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**Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

**Note 17: Functional Expenses**

Cook Children's provides health care services primarily to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on various methods. The following schedule presents the natural classification of expenses by function as follows for the years ended September 30:

	<b>2019</b>			
	<b>Health Care Services</b>	<b>General &amp; Administrative</b>	<b>Fundraising</b>	<b>Total</b>
<i>(in thousands)</i>				
Salaries and wages	\$ 562,410	\$ 79,439	\$ 2,871	\$ 644,720
Employee benefits	138,217	27,680	918	166,815
Medical claims expense	355,320	-	-	355,320
Operating supplies and expenses	96,691	276,683	1,499	374,873
Depreciation and amortization	66,520	20,022	1	86,543
Interest expenses and fees	26,100	1,908	40	28,048
Loss (gain) on disposition of property and equipment	(43)	143	-	100
	<u>\$ 1,245,215</u>	<u>\$ 405,875</u>	<u>\$ 5,329</u>	<u>\$ 1,656,419</u>
	<b>2018</b>			
	<b>Health Care Services</b>	<b>General &amp; Administrative</b>	<b>Fundraising</b>	<b>Total</b>
<i>(in thousands)</i>				
Salaries and wages	\$ 533,046	\$ 75,291	\$ 2,721	\$ 611,058
Employee benefits	130,565	26,148	867	157,580
Medical claims expense	336,981	-	-	336,981
Operating supplies and expenses	96,653	276,574	1,498	374,725
Depreciation and amortization	62,935	18,943	1	81,879
Interest expenses and fees	28,202	2,062	43	30,307
Loss (gain) on disposition of property and equipment	211	(702)	-	(491)
	<u>\$ 1,188,593</u>	<u>\$ 398,316</u>	<u>\$ 5,130</u>	<u>\$ 1,592,039</u>

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### **Note 18: Related Party Transactions**

The Jewel Charity Ball was organized to raise funds to aid the charity fund of the Medical Center. Contributions from the Jewel Charity Ball recognized in operating income for charity care were \$1,890,000 and \$1,747,000 in 2019 and 2018, respectively.

From time to time, Cook Children's conducts business transactions with companies that members of the Board have a direct or indirect relationship. These relationships and transactions are disclosed by the Board members in annual conflict of interest statements and are reviewed annually by the Board. Certain of these transactions are also disclosed in Cook Children's annual IRS Form 990, in accordance with applicable disclosure requirements. These transactions were not significant in 2019 or 2018.

### **Note 19: Disclosures About Fair Value of Assets and Liabilities**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

#### ***Recurring Measurements***

The table on the following page presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2019 and 2018

(in thousands)

		Fair Value Measurement Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
<b>September 30, 2019</b>	<b>Total</b>				
<b>Assets</b>					
Cash and cash equivalents					
Cash	\$ 77,761	\$ -	\$ -	\$ -	\$ -
Cash equivalents	581,099	581,099	-	-	-
	<u>\$ 658,860</u>	<u>\$ 581,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assets whose use is limited					
Cash	\$ 685	\$ -	\$ -	\$ -	\$ -
Mutual funds	18,958	18,958	-	-	-
	<u>\$ 19,643</u>	<u>\$ 18,958</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in trust	\$ 14,070	\$ -	\$ 14,070	\$ -	\$ -
Short and long term investments					
Debt securities					
U.S. Treasury obligations	\$ 223,792	\$ -	\$ 223,792	\$ -	\$ -
U.S. agency obligations	70,108	-	70,108	-	-
Investment grade corporate bonds	106,127	-	106,127	-	-
International agency obligations	24,029	-	24,029	-	-
Mortgage-backed securities	32,757	-	32,757	-	-
Commercial paper	5,717	-	5,717	-	-
	<u>\$ 462,530</u>	<u>\$ -</u>	<u>\$ 462,530</u>	<u>\$ -</u>	<u>\$ -</u>
Equity securities					
Consumer discretionary and staples	\$ 110,026	\$ 110,026	\$ -	\$ -	\$ -
Energy and utilities	8,040	8,040	-	-	-
Financials	49,174	49,174	-	-	-
Health care	55,759	55,759	-	-	-
Industrials and materials	83,281	83,281	-	-	-
Information technology	85,919	85,919	-	-	-
Real estate	3,328	3,328	-	-	-
Communication services	22,904	22,904	-	-	-
	<u>\$ 418,431</u>	<u>\$ 418,431</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	\$ 9,351	\$ 9,351	\$ -	\$ -	\$ -
Certificates of deposit	\$ 33,294	\$ -	\$ 33,294	\$ -	\$ -
Real estate	\$ 19,253	\$ -	\$ 19,253	\$ -	\$ -
Alternative investments					
Equity short/long hedge funds	\$ 191,110	\$ -	\$ -	\$ -	\$ 191,110
Real estate funds	120,097	-	-	-	120,097
Private investment funds	716,474	-	-	-	716,474
Single-strategy credit/hedge funds	90,138	-	-	-	90,138
Global equity funds	79,145	-	-	-	79,145
Long emerging market funds	74,906	-	-	-	74,906
	<u>\$ 1,271,870</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,271,870</u>
<b>Liabilities</b>					
Interest rate swap agreement	\$ 7,401	\$ -	\$ 7,401	\$ -	\$ -

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2019 and 2018

(in thousands)

		Fair Value Measurement Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
<b>September 30, 2018</b>	<b>Total</b>				
<b>Assets</b>					
Cash and cash equivalents					
Cash	\$ 60,052	\$ -	\$ -	\$ -	\$ -
Cash equivalents	294,003	294,003	-	-	-
	<u>\$ 354,055</u>	<u>\$ 294,003</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Assets whose use is limited					
Cash	\$ 791	\$ -	\$ -	\$ -	\$ -
Mutual funds	17,079	17,079	-	-	-
	<u>\$ 17,870</u>	<u>\$ 17,079</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Beneficial interests in trust	\$ 14,097	\$ -	\$ 14,097	\$ -	\$ -
Short and long term investments					
Debt securities					
U.S. Treasury obligations	\$ 194,980	\$ -	\$ 194,980	\$ -	\$ -
U.S. agency obligations	60,207	-	60,207	-	-
Investment grade corporate bonds	145,795	-	145,795	-	-
International agency obligations	35,722	-	35,722	-	-
Mortgage-backed securities	14,276	-	14,276	-	-
Commercial paper	5,514	-	5,514	-	-
	<u>\$ 456,494</u>	<u>\$ -</u>	<u>\$ 456,494</u>	<u>\$ -</u>	<u>\$ -</u>
Equity securities					
Consumer discretionary and staples	\$ 121,126	\$ 121,126	\$ -	\$ -	\$ -
Energy and utilities	11,467	11,467	-	-	-
Financials	45,562	45,562	-	-	-
Health care	39,878	39,878	-	-	-
Industrials and materials	140,079	140,079	-	-	-
Information technology	85,659	85,659	-	-	-
Real estate	3,105	3,105	-	-	-
Communication services	18,415	18,415	-	-	-
	<u>\$ 465,291</u>	<u>\$ 465,291</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mutual funds	\$ 8,021	\$ 8,021	\$ -	\$ -	\$ -
Real estate	\$ 23,307	\$ -	\$ 23,307	\$ -	\$ -
Alternative investments					
Equity short/long hedge funds	\$ 238,109	\$ -	\$ -	\$ -	\$ 238,109
Multi-strategy hedge funds	32	-	-	-	32
Real estate funds	116,132	-	-	-	116,132
Private investment funds	641,085	-	-	-	641,085
Single-strategy credit/hedge funds	86,553	-	-	-	86,553
Global equity funds	84,903	-	-	-	84,903
Long emerging market funds	69,634	-	-	-	69,634
	<u>\$ 1,236,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,236,448</u>
<b>Liabilities</b>					
Interest rate swap agreement	\$ 4,718	\$ -	\$ 4,718	\$ -	\$ -

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### ***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Chief Investment Officer (CIO). The CIO's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

### ***Beneficial Interest in Trusts***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

### ***Interest Rate Swap Agreement***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.



# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

### Note 20: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of September 30, 2019 and 2018, comprise the following:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 658,860	\$ 354,055
Investments	2,214,729	2,189,561
Patient accounts receivable	167,524	193,986
Contributions receivable, net	12,967	15,835
Estimated amounts due from third-party payers	12,388	12,605
Beneficial interest in perpetual trusts	14,070	14,097
Assets whose use is limited or restricted	19,643	17,870
Other receivables	37,578	41,777
	<hr/>	<hr/>
Total financial assets	3,137,759	2,839,786
	<hr/>	<hr/>
Less amounts not available to be used within one year		
Contributions receivable	1,588	4,651
Beneficial interest in perpetual trust	14,070	14,097
Other receivables	24,220	24,220
Investments and assets whose use is restricted	1,310,766	1,277,625
	<hr/>	<hr/>
Financial assets not available to be used within one year	1,350,644	1,320,593
	<hr/>	<hr/>
Financial assets available to meet general expenditures within one year	\$ 1,787,115	\$ 1,519,193
	<hr/>	<hr/>

Cook Children's has certain board-designated and donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. While the board-designated assets have been designated for particular purposes, these amounts could be made available, if necessary. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. Cook Children's has other assets limited to use for donor restricted purposes, more fully described in *Notes 1* and *12*, that are not available for general expenditure within the next year.

As part of Cook Children's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. In addition, Cook Children's invests cash in excess of daily requirements in short and long-term investments. Cook Children's has a liquidity policy to maintain operating cash on hand of at least 75 days operating expenses. Amounts in excess of 75 days operating expenses are considered available for

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

investment in a manner consistent with Cook Children's investment policy. To achieve these targets, Cook Children's forecasts its future cash flows and monitors its liquidity monthly. During the years ended September 30, 2019 and 2018, the level of liquidity was managed within the policy requirements.

### **Note 21: Acquisition of CSC**

On January 1, 2018, through a corporate membership transfer, the Medical Center became the sole member of the Child Study Center. On that same date, the Child Study Center Foundation merged into the Foundation with the Foundation as the successor entity of the merger. No consideration was transferred by Cook Children's as part of this transaction. The acquisition resulted in a contribution which represents the difference between the fair value of the assets acquired over the liabilities assumed. This amount was included in the consolidated statements of operations and changes in net assets for the year ended September 30, 2018, as follows:

*(in thousands)*

Net assets without donor restrictions	\$ 14,101
Net assets with donor restrictions	<u>29,257</u>
	<u>\$ 43,358</u>

### **Note 22: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

#### ***Variable Consideration***

Estimates of variable consideration in determining the transaction price for patient service revenue is described in *Notes 1* and *2*.

#### ***Medical Claims and Self-funded Insurance***

Estimates related to the accrual of the Health Plan's medical claims and self-funded insurance programs are described in *Notes 1* and *8*.

#### ***Professional Liability Claims***

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *9*.

# **W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries**

## **Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

### ***Litigation***

In the normal course of business, Cook Children's is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by Cook Children's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. Cook Children's evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

### ***Investments***

Cook Children's invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

## **Note 23: Changes in Accounting Principle**

### ***ASU Topic 606 Revenue from Contracts with Customers***

On October 1, 2018, Cook Children's adopted Topic 606 *Revenue from Contracts with Customers (Topic 606)*, using a full retrospective method of adoption to all contracts with patients at October 1, 2017.

The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to patients in amounts that reflect the consideration to which Cook Children's expects to be entitled in exchange for those goods or services. The amount to which Cook Children's expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient services to its patients. Under Topic 606, the estimated amounts due from patients for which Cook Children's does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from Cook Children's estimation of the transaction price or revenue recorded.

Prior to the adoption of Topic 606, the majority of the provision for doubtful accounts related to patients without insurance, as well as patient responsibility balances for co-pays, co-insurance and deductibles for patients with insurance. Adoption of Topic 606 resulted in changes in presentation of financial statements and related disclosures in the notes to the consolidated financial statements as shown below.

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

	September 30, 2018		
	As Previously Reported	As Adjusted	Adoption Impact
<i>Statements of Operations</i>			
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>			
Net patient service revenue	\$ 1,120,514		\$ (1,120,514)
Less provision for uncollectible accounts	64,648		(64,648)
Net patient service revenue less provision for uncollectible accounts	1,055,866	\$ 1,055,866	-
Total revenues, gains and other support without donor restrictions	1,730,643	1,730,643	-
<i>Statements of Cash Flows</i>			
Provision for uncollectible accounts	64,648	-	(64,648)
Changes in patient accounts receivable	(118,454)	(53,806)	64,648

The adoption had no impact on operating income, overall change in net assets or net cash provided by operating activities.

### **ASU Topic 958 Presentation of Financial Statements of Not-for-Profit Entities**

In 2019, Cook Children's also adopted Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

#### *Balance Sheet*

- The balance sheet distinguishes between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

#### *Statement of Operations and Changes in Net Assets*

- Expenses are reported by both nature and function.

#### *Notes to the Financial Statements*

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.
- Amounts and purposes of board designations as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**

**Notes to Consolidated Financial Statements**

**September 30, 2019 and 2018**

**Note 24: Future Changes in Accounting Principle**

On February 25, 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for Cook Children's fiscal year ending September 30, 2020. Cook Children's is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

**Note 25: Subsequent Events**

In February 2020, Cook Children's anticipates it will issue the Series 2020 Tarrant County Cultural Education Facilities Finance Corporation Hospital Revenue Bonds (Cook Children's Medical Center) in the principal amount of up to \$239,500,000 to refinance the outstanding balance of the 2010A Bonds and fund a facility expansion project. It is anticipated that the bonds will bear interest at rates ranging from 2.18% to 5.00% and principal amounts will be paid annually between 2020 and 2051.

Subsequent events have been evaluated through January 22, 2020, which is the date the consolidated financial statements were issued.

## **Supplementary Information**

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Balance Sheet Information – Consolidating Schedule

September 30, 2019

(in thousands)

	Foundation	System	Medical Center	Physician Network	Home Health	Health Plan	Indemnity Company	Rosedale Office Bldg	Child Study Center	Combined Total	Eliminating Entries	Consolidated Total
<b>Assets</b>												
<b>Current Assets</b>												
Cash and cash equivalents	\$ 89,257	\$ (107,952)	\$ 540,815	\$ (645)	\$ 7,268	\$ 99,805	\$ 2,355	\$ 30,799	\$ (2,842)	\$ 658,860	\$ -	\$ 658,860
Short-term investments	58,191	13,582	-	-	-	4,981	2,281	-	-	79,035	-	79,035
Patient accounts receivable	-	-	148,410	15,315	3,628	-	-	-	171	167,524	-	167,524
Intercompany receivables	-	10,900	-	41	-	-	-	-	-	10,941	(10,941)	-
Other current assets	12,919	10,308	44,087	1,614	1,850	13,570	188	215	19	84,770	-	84,770
Total current assets	160,367	(73,162)	733,312	16,325	12,746	118,356	4,824	31,014	(2,652)	1,001,130	(10,941)	990,189
<b>Assets Whose Use is Limited or Restricted</b>	-	18,958	685	-	-	-	-	-	-	19,643	-	19,643
<b>Long-term Investments</b>	1,836,464	216,982	-	-	-	48,841	33,407	-	-	2,135,694	-	2,135,694
<b>Property and Equipment, Net</b>	1,067	199,058	660,817	10,198	1,975	4,437	-	25,663	15,000	918,215	-	918,215
<b>Other Assets</b>	15,660	669	38,084	1,585	-	-	502	-	-	56,500	(6,978)	49,522
Total assets	\$ 2,013,558	\$ 362,505	\$ 1,432,898	\$ 28,108	\$ 14,721	\$ 171,634	\$ 38,733	\$ 56,677	\$ 12,348	\$ 4,131,182	\$ (17,919)	\$ 4,113,263
<b>Liabilities and Net Assets</b>												
<b>Current Liabilities</b>												
Accounts payable	\$ 299	\$ 26,904	\$ 38,057	\$ 2,531	\$ 1,393	\$ 7,044	\$ 346	\$ 19	\$ 225	\$ 76,818	\$ -	\$ 76,818
Medical claims accrued and payable	-	12,509	-	-	-	70,249	-	-	-	82,758	-	82,758
Estimated payable for professional liability self-insurance claims, current portion	-	-	-	-	-	-	4,942	-	-	4,942	-	4,942
Current portion of long-term debt outstanding	-	-	36,650	-	-	-	-	-	-	36,650	-	36,650
Accrued liabilities and other	2,342	41,296	47,125	27,231	1,918	3,139	-	111	811	123,973	-	123,973
Intercompany payables	-	-	26	-	-	10,633	282	-	-	10,941	(10,941)	-
Estimated payable to third-party payors	-	-	5,371	-	-	-	-	-	-	5,371	-	5,371
Total current liabilities	2,641	80,709	127,229	29,762	3,311	91,065	5,570	130	1,036	341,453	(10,941)	330,512
<b>Estimated Payable for Professional Liability Self-insurance Claims</b>	-	-	-	-	-	-	25,404	-	-	25,404	(6,858)	18,546
<b>Long-term Debt Outstanding</b>	-	-	326,875	-	-	-	-	32,326	-	359,201	-	359,201
Total liabilities	2,641	80,709	454,104	29,762	3,311	91,065	30,974	32,456	1,036	726,058	(17,799)	708,259
<b>Net Assets</b>												
Without donor restrictions												
Cook Children's	1,868,813	281,796	975,950	(1,654)	11,410	80,569	7,759	24,221	11,312	3,260,176	(120)	3,260,056
Noncontrolling interests	-	-	2,844	-	-	-	-	-	-	2,844	-	2,844
Total net assets without donor restrictions	1,868,813	281,796	978,794	(1,654)	11,410	80,569	7,759	24,221	11,312	3,263,020	(120)	3,262,900
With donor restrictions	142,104	-	-	-	-	-	-	-	-	142,104	-	142,104
Total net assets	2,010,917	281,796	978,794	(1,654)	11,410	80,569	7,759	24,221	11,312	3,405,124	(120)	3,405,004
Total liabilities and net assets	\$ 2,013,558	\$ 362,505	\$ 1,432,898	\$ 28,108	\$ 14,721	\$ 171,634	\$ 38,733	\$ 56,677	\$ 12,348	\$ 4,131,182	\$ (17,919)	\$ 4,113,263

# W.I. Cook Foundation, Inc. and Subsidiaries d/b/a Cook Children's Health Foundation and Subsidiaries

## Statement of Operations Information – Consolidating Schedule

Year Ended September 30, 2019

(in thousands)

	Foundation	System	Medical Center	Physician Network	Home Health	Health Plan	Indemnity Company	Rosedale Office Bldg	Child Study Center	Combined Total	Eliminating Entries	Consolidated Total
<b>Revenues, Gains and Other Support Without Donor Restrictions</b>												
Patient service revenue	\$ -	\$ -	\$ 1,035,846	\$ 201,222	\$ 44,861	\$ -	\$ -	\$ -	\$ 3,644	\$ 1,285,573	\$ (148,266)	\$ 1,137,307
Premium and capitation revenue	-	-	-	-	-	564,884	-	-	-	564,884	-	564,884
Other revenue	7,397	222,991	108,242	123,408	2,053	-	5,796	3,129	1,172	474,188	(344,376)	129,812
Net assets released from restrictions used for operations	265	1,217	7,486	1,099	18	-	-	-	1,866	11,951	-	11,951
Total revenues, gains and other support without donor restrictions	7,662	224,208	1,151,574	325,729	46,932	564,884	5,796	3,129	6,682	2,336,596	(492,642)	1,843,954
<b>Expenses and Losses</b>												
Salaries and wages	2,871	79,431	288,742	233,078	13,480	22,809	-	-	4,309	644,720	-	644,720
Employee benefits	918	26,031	97,314	39,189	3,873	7,357	-	-	1,456	176,138	(9,323)	166,815
Medical claims expense	-	-	-	-	-	498,210	7,065	-	-	505,275	(149,955)	355,320
Operating supplies and expenses	13,057	103,761	474,600	60,099	28,684	25,803	310	976	2,255	709,545	(334,672)	374,873
Depreciation and amortization	6	21,860	58,402	2,167	634	1,485	-	1,517	472	86,543	-	86,543
Interest expense and fees	40	167	16,434	297	76	10,362	-	637	35	28,048	-	28,048
Loss (gain) on disposition of property and equipment	-	(1)	143	-	(42)	-	-	-	-	100	-	100
Total expenses and losses	16,892	231,249	935,635	334,830	46,705	566,026	7,375	3,130	8,527	2,150,369	(493,950)	1,656,419
<b>Operating Income (Loss)</b>	(9,230)	(7,041)	215,939	(9,101)	227	(1,142)	(1,579)	(1)	(1,845)	186,227	1,308	187,535
<b>Other Income (Expense)</b>												
Investment return	49,414	11,507	247	-	-	2,819	710	1	-	64,698	-	64,698
Change in net unrealized gains on investments	20,438	7,939	-	-	-	2,152	1,511	-	-	32,040	-	32,040
Change in fair value of interest rate swap	-	-	(2,683)	-	-	-	-	-	-	(2,683)	-	(2,683)
Retrospective premium credit	-	68	1,240	-	-	-	-	-	-	1,308	(1,308)	-
Total other income (expense)	69,852	19,514	(1,196)	-	-	4,971	2,221	1	-	95,363	(1,308)	94,055
<b>Excess (Deficiency) of Revenues Over Expenses</b>	\$ 60,622	\$ 12,473	\$ 214,743	\$ (9,101)	\$ 227	\$ 3,829	\$ 642	\$ -	\$ (1,845)	\$ 281,590	\$ -	\$ 281,590



**W.I. Cook Foundation, Inc. and Subsidiaries d/b/a  
Cook Children's Health Foundation and Subsidiaries**  
**Statement of Changes in Net Assets Information – Consolidating Schedule**  
**Year Ended September 30, 2019**

(in thousands)

	Foundation	System	Medical Center	Physician Network	Home Health	Health Plan	Indemnity Company	Rosedale Office Bldg	Child Study Center	Combined Total	Eliminating Entries	Consolidated Total
<b>Net Assets Without Donor Restrictions</b>												
Excess (deficiency) of revenues over expenses	\$ 60,622	\$ 12,473	\$ 214,743	\$ (9,101)	\$ 227	\$ 3,829	\$ 642	\$ -	\$ (1,845)	\$ 281,590	\$ -	\$ 281,590
Net assets released from restriction used for purchase of property and equipment	-	85	4,153	139	-	-	-	-	39	4,416	-	4,416
Contributions of or for purchase of property and equipment	1,000	-	-	-	-	-	-	-	-	1,000	-	1,000
Purchase of units from noncontrolling interest	-	-	(763)	-	-	-	-	-	-	(763)	-	(763)
Distributions to noncontrolling interest	-	-	(8,370)	-	-	-	-	-	-	(8,370)	-	(8,370)
Transfers between affiliates	(1,494)	95	1,399	-	-	-	-	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions	60,128	12,653	211,162	(8,962)	227	3,829	642	-	(1,806)	277,873	-	277,873
<b>Net Assets With Donor Restrictions</b>												
Change in beneficial interest in perpetual trust	(27)	-	-	-	-	-	-	-	-	(27)	-	(27)
Contributions and investment return	17,426	-	-	-	-	-	-	-	-	17,426	-	17,426
Net assets released from restrictions	(16,366)	-	-	-	-	-	-	-	-	(16,366)	-	(16,366)
Increase in net assets with donor restrictions	1,033	-	-	-	-	-	-	-	-	1,033	-	1,033
<b>Change in Net Assets</b>	61,161	12,653	211,162	(8,962)	227	3,829	642	-	(1,806)	278,906	-	278,906
<b>Net Assets, Beginning of Year</b>	1,949,756	269,143	767,632	7,308	11,183	76,740	7,117	24,221	13,118	3,126,218	(120)	3,126,098
<b>Net Assets, End of Year</b>	\$ 2,010,917	\$ 281,796	\$ 978,794	\$ (1,654)	\$ 11,410	\$ 80,569	\$ 7,759	\$ 24,221	\$ 11,312	\$ 3,405,124	\$ (120)	\$ 3,405,004

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## **APPENDIX C**

### **SUMMARY OF MASTER INDENTURE, TRUST INDENTURE AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS**

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## APPENDIX C

### SUMMARY OF MASTER INDENTURE, TRUST INDENTURE AND LOAN AGREEMENT AND DEFINITION OF CERTAIN TERMS

#### Definition of Certain Terms – Master Indenture

In addition to the terms defined elsewhere in this Official Statement, the following terms have the following meanings when used in the summary of provisions of the Master Indenture contained in this Appendix and the Official Statement unless the context clearly otherwise requires. Reference is hereby made to the Master Indenture for complete definitions of all terms used therein.

“*Accountant*” means a Person engaged in the practice of accounting who is a nationally recognized certified public accountant and who (except as otherwise expressly provided in the Master Indenture) may be employed by or affiliated with any Member of the Obligated Group or any Designated Member.

“*Adjusted Revenues*” of any specified Person means, for any period, gross Revenues of such Person less provisions for uncollectible accounts, free service and discounts, and estimated contractual allowances of such Person, plus investment and other income or loss of such Person for such period; provided there shall not be included in investment and other income or loss for such period any amounts excluded pursuant to the definition of Debt, or any gain or loss arising from the early retirement of indebtedness.

“*Affiliate*” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control” when used with respect to any Person means the power to direct the policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“*Annual Debt Service Requirements*” of any specified Person means, for any period, the principal of (and premium, if any) and interest and other debt service charges (which include for purposes hereof, any fees or premiums for any letter of credit, surety bond, policy of insurance, bond purchase agreement or any similar credit or liquidity support secured in connection therewith) on all Funded Debt of such Person paid or payable by such Person during such period, and, for such purposes, any one or more of the following rules shall apply at the election of the Obligated Group Agent:

(1) Refinanced Amounts - if such Person has refunded or purchased any of its Funded Debt at or prior to its Maturity with the proceeds of other Funded Debt, then the portion of the Funded Debt refunded or purchased shall be excluded from such calculation and the principal of (and premium, if any) and interest on the Funded Debt incurred for such refunding, refinancing or purchase maturing in the period for which the calculation is being made shall be added;

(2) Prefunded Payments - principal of (and premium, if any) and interest and other debt service charges on Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest or other debt service charges are paid from funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) deposited with the proper depository in trust for the payment redemption or satisfaction thereof;

(3) Contingent Obligations - in the case of any guarantees or other Debt described in clause (3) of the definition of Debt, the principal of (and premium, if any) and interest and other debt service charges on such Debt for such period shall not be included in such calculation unless the Person which guaranteed or is otherwise obligated in respect of such Debt was actually required to make, or transfer

funds to enable the obligor to make, any payment in respect of such Debt during such period, in which case the total amount paid by such Person in respect of such guarantee or other obligation in such period shall be included in any computation of the Annual Debt Service Requirements of such Person for such period;

(4) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates;

(5) Hedge Agreements - any amounts paid or received pursuant to a Hedge Agreement by the Person for which Annual Debt Service Requirements are to be calculated during such period shall be treated as additional debt service charges or as a reduction in debt service charges, as appropriate, for purposes of this definition;

(6) Balloon and Demand Debt - if the amount of any Debt that is due, or at the option of the payee could become due or payable in respect of any required purchase of such Debt, in such Fiscal Year (after taking into account the amortization thereof pursuant to any required sinking fund) exceeds 15% of the original amount of such Debt and the Obligated Group Agent shall deliver to the Trustee:

(a) *Refinancing Certificate*: an Officer's Certificate, dated within 90 days of the date of calculation of such Annual Debt Service Requirements, stating that financing of a stated term (which shall not extend beyond 30 years after such date of calculation), amortization, and interest rate is reasonably attainable to refund or otherwise directly or indirectly to refinance any amount of such Debt, then the principal of and premium, if any, and interest and other debt service charges on the amount of such Debt so certified to be refundable or refinancable shall be excluded from such calculation and the principal of and premium, if any, and interest and other debt service charges on the refunding Debt as so certified which would result from such refunding or refinancing in such Fiscal Year, if incurred on the first day of the Fiscal Year for which Annual Debt Service Requirements are being calculated, shall be added; or

(b) *Sinking Fund Retirement*: a Consent of the obligor on such Debt agreeing to retire (and such Debt shall permit the retirement of), or to fund a sinking fund for, the principal of such Debt according to a fixed schedule stated in such Consent ending on or before the Fiscal Year in which such amount is due or could become due or payable in respect of any required purchase of such Debt, then the principal of (and, in the case of retirement, the premium, if any, and interest and other debt service charges on) such Debt shall be computed as if the same were due in accordance with such schedule; provided that this Clause (b) shall apply only to Debt for which the installments of principal previously scheduled have been paid or funded on or before the times required by such schedule;

(7) Maturing Debt: if any Debt has a Stated Maturity of four years or less and the Obligated Group Agent delivers to the Trustee an Officer's Certificate, dated within 90 days of the date of calculation of such Annual Debt Service Requirements, stating that (i) the obligor on such Debt intends to redeem any amount of principal of (and premium, if any) and interest and other debt service charges on such Debt with proceeds of other Debt, and (ii) the issuance on or before such Stated Maturity of Debt for such purpose with a stated term (which shall not extend beyond 20 years after such date of calculation), amortization, and interest rate is reasonably attainable, then for purposes of such calculation, the amount of principal of (and premium, if any) and interest and other debt service charges maturing shall be excluded and the principal of (and premium, if any) and interest and other debt service charges on the Debt described in Clause (ii) of this Clause (7), as if issued at the Stated Maturity of the principal so excluded, shall be added.

*“Authorized Officer”* of a Person means the Chair of the Governing Body, a Vice Chair of the Governing Body, the Chief Executive Officer, the President, the Chief Legal Officer, the Chief Financial Officer, the Chief Debt Officer, the Treasurer, or the Secretary of such Person, or any other officer of such Person authorized to perform functions similar to those customarily performed by any such officer holding one of the offices listed above and designated in writing to the Trustee, which designation shall remain in effect until the Trustee receives notice that it is no longer effective.

*“Available Revenues”* of any Person means, as to any period of time, the excess of Revenues over expenses from continuing operations before deductions for minority interest in net earnings (or, as the case may be, net income after taxes) of such Person for such period (including any realized investment income and losses), to which shall be added depreciation, property retirement, depletion, obsolescence, impairment, amortization, issuance expense, goodwill, and interest (and Hedge Payments and Hedge Extraordinary Payments to the extent that such payments are treated as an expense during such period of time in accordance with the provisions set forth under “THE MASTER INDENTURE – Compliance Certificates and Reports”), provided that Available Revenues shall not include: (1) any gain or loss resulting from (a) the extinguishment or refinancing of Debt or Hedge Agreements, (b) any disposition of Property not made in the ordinary course of business, (c) any discontinued operations or (d) adjustments to the value of assets or liabilities resulting from changes in GAAP; (2) unrealized gains or losses on marketable securities, (3) gains or losses resulting from changes in valuation of any Hedge Agreement, (4) unrealized gains or losses from the write-down, reappraisal or revaluation of assets including for “other than temporary” declines in value, (5) any extraordinary gains or losses, (6) unrealized gains or losses that do not result in the receipt or expenditure of cash, (7) any other non-cash expense (other than bad debt), (8) income from any amounts deposited for payment of principal (and premium, if any) and interest and other debt services charges (i) as provided in the definition of Debt, or (ii) to the extent such income was used in any adjustment of Annual Debt Service Requirements pursuant to clause (2) of the definition of Annual Debt Service Requirements; (9) any items in a Person’s Financial Statements for a particular Fiscal Year that are the result of or required by any correction, adjustment or restatement of, or the retrospective application of accounting standards to, such Person’s Financial Statements for any other Fiscal Year;

provided that, for such purposes, in determining gain or loss from the sale or other disposition of any asset for which an “other-than-temporary” impairment loss has theretofore been recognized in accordance with Financial Accounting Statement No. 115, any such gain shall be reduced (and any such loss shall be increased) by the amount of such loss previously recognized; and provided further that, if any percentage or any amount of debt service on Debt of any other primary obligor is included in the Annual Debt Service Requirements of such Person for such period or any future Fiscal Year pursuant to Clause (3) of the definition of “Annual Debt Service Requirements” in this provision, then the Available Revenues of such primary obligor for such period shall be included in the Available Revenues of such Person for such period up to the lesser of (i) the same percentage of such primary obligor’s Available Revenue for such period or (ii) the amount of debt service of such primary obligor so included in such period or future Fiscal Year, as applicable; and provided further that, at the option of the Obligated Group Agent, net realized gains (and losses) from the sale of investments may be included in the computation of Available Revenues on the basis of the average annual amount of those gains (and losses) for the three Fiscal Years next preceding the computation date, rather than including the actual amount of net realized gains (and losses) from the sale of investments for the period for which a computation is being made if the value of such net realized gain (or loss) is greater than the value of any similar such gain (or loss) recorded in any of the prior three fiscal years.

*“Board Resolution”* of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

*“CCHCS”* means Cook Children’s Health Care System, a Texas nonprofit corporation, and its successors and assigns.

*“Code”* means the Internal Revenue Code of 1986, as amended from time to time and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“*Combined Group*” means the Obligated Group Agent, all other Obligated Group Members and all Designated Members.

“*Combined Group Financial Statement*” means (i) any special purpose financial statement including only members of the Combined Group or (ii) the financial information relating solely to the Combined Group as shown on the consolidating schedule contained in any System Financial Statements.

“*Consent*,” “*Order*” and “*Request*” of any specified Person mean, respectively, a written consent, order or request delivered to the Trustee and signed in the name of such Person by an Authorized Officer.

“*Credit Agreement*” with respect to any series of Securities means any agreement or other obligation of an Obligated Group Member entered into to provide credit or liquidity support relating to a series of Securities, or relating to other obligations secured by Securities, and designated as a Credit Agreement by Obligated Group Agent Order or Supplemental Indenture.

“*Credit Enhancer*” with respect to any series of Securities means the Person designated as such by Obligated Group Agent Order or Supplemental Indenture.

“*Credit Facility*” with respect to any series of Securities means any letter of credit, bond insurance policy or other instrument or undertaking issued by a Credit Enhancer with respect to a series of Securities or other instruments secured by Securities and designated as a Credit Facility by Obligated Group Agent Order or Supplemental Indenture.

“*Debt*” of any specified Person means all:

(1) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of property other than goods or services that are acquired in the ordinary course of business of such Person;

(2) lease obligations of such Person that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(3) all indebtedness (other than indebtedness otherwise treated as Debt under the Master Indenture) for borrowed money or the acquisition, construction or improvement of property or capitalized lease obligations guaranteed, directly or indirectly, in any manner by such Person, or in effect guaranteed, directly or indirectly, by such Person through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise;

(4) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by such Person whether or not such Person has assumed or become liable for the payment thereof; and

For the purpose of computing the “Debt” of any Person, there shall be excluded (a) any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited shall not be included in any computation of the assets of such Person, and the income from any such deposits shall not be included in the calculation of Adjusted Revenues or Available Revenues of such Person, (b) any agreement or undertaking by the Obligated Group to supply funds or to invest in any Affiliate as a condition to the transaction of any business or the exercise of any privilege or license in the ordinary course of business by such Affiliate so long as either (i) such Affiliate does not incur any indebtedness



described in clauses (1) or (2) of this definition, or (ii) such agreement or undertaking by its terms does not apply to any such indebtedness, (c) Debt of one Obligated Group Member to another Obligated Group Member, or the guarantee by any Obligated Group Member of Debt of any Obligated Group Member, (d) the notional value of any Hedge Agreement; provided, however, if more than one Obligated Group Member shall have incurred or assumed a guarantee of a Person, other than a Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purpose of any computations or calculations of Debt, such guarantee or obligation shall be included only one time, and (e) to the extent that a Person has obtained credit or liquidity enhancement or support for Debt, whether by means of a bank bond purchase agreement, letter of credit, revolving credit agreement, surety bond, or otherwise, and the terms and conditions under which such credit or liquidity enhancement or support was obtained required such Person to reimburse the provider of such enhancement or support, such obligation of such Person to reimburse such provider for such amounts shall constitute Debt only when and to the extent such advances are actually made and such obligation to reimburse actually arises.

*“Debt to Capitalization Ratio”* of any specified Person for any Fiscal Year means the ratio of Total Debt of such Person over the sum of Total Debt plus unrestricted net assets (including unrestricted disproportionate share payments assigned to temporarily restricted net assets) of such Person.

*“Default”* means any Event of Default and any other event which, with the lapse of time or giving of notice or both, would constitute an Event of Default.

*“Defeasance Obligations”* means:

(1) direct obligations of the United States of America or obligations to the full and prompt payment of which the full faith and credit of the United States of America is irrevocably pledged or evidences of direct ownership of interests in future interest and principal payments on such obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on such obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any Person claiming through the custodian or to whom the custodian may be obligated;

(2) bonds, debentures, notes or other evidences of indebtedness issued by any agency or instrumentality of the United States of America to the extent rated AAA or the equivalent by at least one Rating Service;

(3) obligations the interest on which is excludable from the gross income of all owners thereof for federal income tax purposes, and provision for the payment of the principal of (and premium, if any) and interest on which shall have been made by the irrevocable deposit at least 123 days preceding the date of determination with a bank or trust company acting as a trustee or escrow agent for holders of such obligations of money, or obligations described in clause (1) above, the maturing principal of and interest on which, when due and payable, without reinvestment will provide money sufficient to pay when due the principal of (and premium, if any) and interest on such obligations, and which money, or obligations described in clause (1) above, are not available to satisfy any other claim, including any claim of the trustee or escrow agent or any claim of any Person claiming through the trustee or escrow agent or any claim of any Person to whom the Person on whose behalf such irrevocable deposit was made, the trustee or the escrow agent may be obligated, whether arising out of the insolvency of the Person on whose behalf such irrevocable deposit was made, the trustee or escrow agent or otherwise; provided that, at the time of their purchase, such obligations are rated in the highest generic long term debt rating category by at least one Rating Service; or

(4) with respect to any series of Securities, such obligations as may be designated in the instruments pursuant to which such series is created as “Defeasance Obligations.”

*“Designated Member”* means any Person that has satisfied the requirements set forth in the Master Indenture for becoming a Designated Member and its successors until such Person or a successor or transferee Person has satisfied the requirements set forth in the Master Indenture for ceasing to be a Designated Member.

“*Event of Default*” is defined under “THE MASTER INDENTURE – Remedies of the Trustee and Holders of Securities in Event of Default – Events of Default” herein.

“*Fair Market Value*,” when used in connection with Property, means the fair market value of such Property as determined by either:

- (1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a “Member of the Appraisal Institute” and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by a Person or firm that is Independent, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer’s Certificate delivered to the Trustee;
- (2) a bona fide offer for the purchase of such Property made on an arm’s-length basis within six months of the date of determination, as established by an Officer’s Certificate; or
- (3) an established market for such Property, including, without limitation, securities and other obligations.

“*Financial Statements*” mean, as applicable, the Combined Group Financial Statements or the System Financial Statements, and with respect to any other Person, for any period, the financial statements of such Person meeting the requirements described under “THE MASTER INDENTURE – Covenants of the Obligated Group – To Keep Books; Financial Reports and Inspection by Trustee” herein.

“*Fiscal Year*” means the fiscal year of each member of the Combined Group or of the System, as applicable, ending on September 30 of each calendar year, or such other consecutive 12-month period selected by the Obligated Group Agent as the fiscal year for each member of the Combined Group or the System and designated from time to time in writing by the Obligated Group Agent to the Trustee, and subject to the designation of an Interim Period as described under “THE MASTER INDENTURE – Covenants of the Obligated Group – To Keep Books; Financial Reports and Inspection by Trustee” herein; provided that for purposes of making calculations or determinations set forth in the Master Indenture on a Fiscal Year basis, or for purposes of combinations or consolidations of accounting information, with respect to those Persons whose actual fiscal year is different from that designated above, the actual fiscal year of such Persons which ended within the Fiscal Year of the members of the Combined Group or of the System, as applicable, shall be used.

“*Foundation*” means W.I. Cook Foundation, Inc., a Texas nonprofit corporation, its successors and assigns.

“*Funded Debt*” of any specified Person means all Debt created, assumed or guaranteed by such Person that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of such Person, to a date more than one year after the original creation, assumption or guarantee of such Debt by such Person.

“*Governing Body*” of any specified Person means such Person’s board of directors, board of managers, board of trustees, managing members, managing partners, general partners, or similar group or entity in which the right to exercise the powers of corporate directors or trustees or of managers or partners is vested, or any duly authorized committee of said board, group or entity.

“*Hedge Agreement*” means an interest rate swap, cap, basis swap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, entered into by a Person with a Qualified Provider with respect to Debt.

*“Hedge Extraordinary Payments”* means any payments required to be paid to a counterparty by a Person pursuant to a Hedge Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by a Person under a Hedge Agreement, which payments are not Hedge Payments.

*“Hedge Payments”* means regularly scheduled payments required to be paid to counterparty by any Person pursuant to a Hedge Agreement.

*“Historical Debt Service Coverage Ratio”* of any specified Person means for any period, the decimal fraction resulting from dividing the Available Revenues of such Person for such period by the Annual Debt Service Requirements of such Person for such period.

*“Holder”* or *“Security Holder”* means a Person in whose name a Security is registered in the Security Register.

*“Hospital”* means Cook Children’s Medical Center, a Texas nonprofit corporation, and its successors and assigns.

*“Independent”* when used with respect to any specified Person means such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Members of the Obligated Group or any other obligor upon the Securities or in any Affiliate of the Members of the Obligated Group or such other obligor, and (3) is not connected with a Member of the Obligated Group or such other obligor or with any Affiliate of a Member of the Obligated Group or such other obligor as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided in the Master Indenture that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order of the Person making such appointment and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

*“Legal Restrictions”* means Federal, state or other applicable governmental laws or regulations affecting any Member of the Obligated Group and its health care facilities.

*“Management Consultant”* means a nationally recognized firm of Independent professional management consultants or an Independent hospital management organization knowledgeable in the operation of hospitals and having a favorable reputation for skill and experience in the field of hospital management consultation.

*“Master Indenture”* means the Second Amended and Restated Master Trust Indenture, dated as of February 1, 2020, among W.I. Cook Foundation, Inc., Cook Children’s Health Care System, the Hospital, Cook Children’s Physician Network, and such other Persons as from time to time are Members of the Obligated Group and The Bank of New York Mellon Trust Company, N.A., as Trustee, as amended or supplemented from time to time in accordance with its terms.

*“Maturity”* when used with respect to any Security means the date on which the principal of such Security becomes due and payable as provided therein or in the Master Indenture, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

*“Network”* means Cook Children’s Physician Network, a Texas nonprofit corporation, its successors and assigns.

*“Obligated Group”* means all Obligated Group Members.

*“Obligated Group Agent”* means the Foundation.

*“Obligated Group Member”* or *“Member of the Obligated Group”* means each of the Foundation, CCHCS, the Hospital and the Network and any other Person who has satisfied the requirements set forth in the Master Indenture for becoming an Obligated Group Member and its successors until such Person or a successor or

transferee Person has satisfied the requirements set forth in the Master Indenture for ceasing to be an Obligated Group Member.

“*Officer’s Certificate*” of any specified Person means a certificate delivered to the Trustee and signed in the name of such Person by an Authorized Officer.

“*Opinion of Counsel*” means a written opinion of counsel signed by an attorney or firm of attorneys and acceptable to the Trustee, who may (except as otherwise expressly provided) be counsel to any Member of the Obligated Group.

“*Organizational Documents*” of any corporation means the articles of incorporation, certificate of formation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“*Outstanding*” when used with respect to the Securities means, as of the date of determination, all Securities theretofore authenticated and delivered under the Master Indenture, except:

- (i) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (ii) Securities for whose payment or redemption money (or Defeasance Obligations to the extent permitted by the Master Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Securities in trust for the Holders of such Securities pursuant to the Master Indenture; provided, that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to the Master Indenture or irrevocable provision therefor satisfactory to the Trustee has been made; and
- (iii) Securities upon transfer of or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to the Master Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Securities have given any request, demand, authorization, direction, notice, consent or waiver under the Master Indenture, Securities owned by the a Member of the Obligated Group or any other obligor upon the Securities or any Affiliate of a Member of the Obligated Group or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Securities which the Trustee actually knows to be so owned shall be so disregarded. The Trustee shall be under no duty to investigate whether any Securities are so owned, but may, in its discretion, make such further investigation or inquiry as it may see fit. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Securities and that the pledgee is not a Member of the Obligated Group or any other obligor upon the Securities or any Affiliate of a Member of the Obligated Group or such other obligor.

“*Paying Agent*” means initially the Trustee, and any other Person authorized by the Obligated Group Agent to pay the principal of (and premium, if any) or interest on any Securities on behalf of the Obligated Group.

“*Permitted Encumbrances*” with respect to any specified Person means:

- (1) liens arising by reason of good faith deposits by or with such Person in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any such Person to secure public or statutory obligations or to secure, or in lieu of, surety, or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(2) any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license in the ordinary course of business, or to enable such Person to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for institutions participating in such arrangements, including, without limitation, any funds or assets required by law or governmental regulation to be kept free of encumbrance as a condition to the transaction of any business or the exercise of any privilege or license in the ordinary course of business, which will for all purposes of the Master Indenture be deemed a Permitted Encumbrance subject to a lien in favor of such governmental agency superior to the lien of the Trustee under the Master Indenture for so long as such transaction remains in effect;

(3) liens created by or existing from any litigation or legal proceeding which is currently being contested in good faith by appropriate proceedings;

(4) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property (A) to terminate such right, power, franchise, grant, license or permit; provided that the exercise of such right would not in the opinion of the Governing Body of such Person materially impair the use of such Property for its intended purpose or materially and adversely affect the value thereof, or (B) to purchase, condemn, appropriate, recapture or designate a purchaser of such Property, or (C) to control, regulate or zone such Property or the use of such property in any manner, that do not in the opinion of such Person materially impair the use of such property for its intended purposes or materially and adversely affect the value thereof;

(5) liens for taxes or assessments or other governmental charges or levies to the extent not required to be paid pursuant to the Master Indenture;

(6) pledges or deposits to secure obligations under worker's compensation laws or similar legislation, including liens of judgments thereunder that are not currently dischargeable;

(7) materialmen's, mechanics', carriers', workmen's, repairmen's or other like liens arising in the ordinary course of business, or deposits to obtain the release of such liens;

(8) leases made, or existing on Property acquired, in the ordinary course of business;

(9) statutory landlords' liens under leases to which such Person is a party;

(10) farmout or carried working interest agreements for development by such Person or others of non producing leases or non producing portions of oil or gas producing Property;

(11) participations in joint operating agreements and unitization agreements and operations covering oil and gas producing Properties;

(12) liens on money deposited by or for the account of patients of such Person as security for or as prepayment for the cost of patient care;

(13) liens or encumbrances on Property (or on the income therefrom) received by such Person as a gift, grant or bequest, if such lien or encumbrance constitutes or results from restrictions (other than the requirement that the grantee thereof make payment in respect of Funded Debt incurred by the grantor with respect to such Property) placed on such gift, grant or bequest (or on the income therefrom) by the grantor thereof;

(14) liens on money and receivables securing rights of third party payors to recoupment of amounts paid to such Person;

(15) any other lien or encumbrance created or incurred in the ordinary course of business that does not secure, directly or indirectly, the repayment of Debt and that, individually or in the aggregate, does not materially impair the value of the utility of the Property subject to such lien or encumbrance;

(16) liens on proceeds of Debt (or on income from the investment of such proceeds) that secure payment of such Debt;

(17) liens on money or obligations deposited with a trustee or escrow agent to cause all or any portion of Debt to be defeased, paid, redeemed or satisfied;

(18) liens on money or obligations deposited to fund a debt service fund in an amount not exceeding the amount of the Debt to which such debt service fund relates that matures within one year of the date on which such deposit is made plus a reasonable carryover amount or deposited to a reserve fund in an amount not in excess of 15% of the principal amount of the Debt to which such reserve fund relates in accordance with the instrument under which such Debt may be secured;

(19) easements, zoning restrictions, licenses, restrictions on the use of real Property, minor restrictions or irregularities of title and other encumbrances that do not, in the opinion of such Person, materially impair the value of such Property or the use of such Property in the operation of the business of such Person;

(20) liens on debt instruments owned by such Person which have been purchased under a credit or liquidity facility issued to secure or support other Debt;

(21) statutory rights or liens of the United States of America or any state or the District of Columbia, or any agency or political subdivision thereof, by reason of funds being made available to any member of the Combined Group under federal or state statutes, regulations or programs;

(22) liens, encumbrances, pledges or other security interest created or assumed by any member of the Combined Group in order to provide or secure financing or credit arrangements for the payment of the cost of any service, item or residency arrangement provided by such member of the Combined Group to any patient, customer or resident;

(23) any mortgage, lien or other encumbrance (a) securing a Debt of less than \$500,000 or (b) disclosed in a loan agreement or any supplement to the Master Indenture pursuant to which a Person becomes a member of the Combined Group;

(24) claims of creditors entitled to priority under the so called "six months rule" as applied by court of equity in proceedings for the administration of insolvent corporations; and

(25) any other lien or encumbrance created or incurred in the ordinary course of business that does not secure, directly or indirectly, the repayment of Debt and which does not, individually or in the aggregate and in the judgment of the Obligated Group Agent, materially impair the value or the utility of the Property subject to such lien or encumbrance.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"*Place of Payment*" for any series of Securities means a city or any political subdivision thereof designated as such by Obligated Group Agent Order or Supplemental Indenture from time to time.

*“Previously Issued Securities”* means each of the promissory notes previously issued and which remain outstanding under the Prior Master Indenture as of the effective date of the Master Indenture.

*“Prior Master Indenture”* means the Amended and Restated Master Trust Indenture dated as of June 15, 2007, among the Foundation, CCHCS, the Hospital, the Network and The Bank of New York Mellon Trust Company, National Association, as Trustee, as supplemented from time to time.

*“Pro Forma Debt Service Coverage Ratio”* of any specified Person for any period means the decimal fraction resulting from dividing the Available Revenues from the most recent Fiscal Year (or another period of comparable length ending within 180 days of the date of calculation) by the maximum Annual Debt Service Requirements of such Person for the current or any future Fiscal Year of such Person, after giving effect to any proposed transaction with respect to which such calculation is made.

*“Projected Debt Service Coverage Ratio”* of any specified Person for any period means the decimal fraction resulting from dividing the estimated Available Revenues from the next Fiscal Year (or, in case any one or more substantial construction projects of any such Person are then in progress, for the Fiscal Year immediately following the anticipated date of mechanical completion of such projects) by the maximum Annual Debt Service Requirements of such Person for the current or any future Fiscal Year of such Person, after giving effect to any proposed transaction with respect to which such calculation is made.

*“Property”* means any and all rights, titles and interests in and to any and all property of a Person whether real or personal, tangible or intangible and wherever situated.

*“Qualified Provider”* means any financial institution or insurance company that is a party to a Hedge Agreement if the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Hedge Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Service at the time of the execution and delivery of the Hedge Agreement.

*“Rating Category”* means (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

*“Rating Service”* means each nationally recognized statistical rating organization, within the meaning of the rules of the United States Securities and Exchange Commission which at the time has a credit rating assigned to any series of the Securities (or any other indebtedness secured by Securities) at the request of the Obligated Group Agent.

*“Regular Record Date”* means, with respect to a series of Securities, the close of business on the date (whether or not a business day) specified as such in the related Obligated Group Member Order or Supplemental Indenture.

*“Responsible Officer”* when used with respect to the Trustee means the chairman and vice chairman of the board of directors, the chairman and vice chairman of the executive committee of the board of directors, the president, the chairman of the trust committee, any vice president (whether or not designated by a number or a word or words added before or after the title “vice president”), any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with a particular subject.

“*Revenues*” of any Person means all receipts, revenues, rentals, income, insurance proceeds (including, without limitation, all Medicaid, Medicare, other third party payments, and amounts received under the State’s disproportionate share program), condemnation awards and other moneys received by or on behalf of such Person, including (without limitation) revenues derived from (a) the ownership, operation or leasing of any portion of the Property of such Person and all rights to receive the same, whether in the form of accounts, general intangibles or other rights, and the proceeds of any of the foregoing, whether now existing or hereafter coming into existence or whether now owned or held or hereafter acquired, and (b) gifts, grants, bequests, donations and contributions heretofore or hereafter made that are legally available to meet any of the obligations of such Person incurred in the financing, operation, maintenance or repair of any portion of the Property of such Person.

“*Security*” means (i) any Obligation as defined in and issued and secured under the Prior Master Indenture, and (ii) any obligation of the Obligated Group, authenticated and delivered pursuant to the Master Indenture, and also means the Previously Issued Securities.

“*State*” means the State of Texas.

“*Stated Maturity*” when used with respect to any Security or any installment of interest thereon means the date specified in such Security as the fixed date on which the principal of such Security or such installment of interest is due and payable.

“*Supplemental Indenture*” means an instrument amending or supplementing the Master Indenture entered into pursuant to the provisions of the Master Indenture.

“*System*” means the Person in which all of the financial results of the Combined Group are consolidated or, if no such entity exists, the group of Persons comprised of all members of the Combined Group and all of their Affiliates.

“*System Financial Statements*” means the consolidated financial statement prepared in accordance with generally accepted accounting principles, including financial information of the members of the Combined Group and of any Affiliate the financial information of which is required by generally accepted accounting principles to be consolidated with the financial information of the members of the Combined Group.

“*Total Debt*” of any Person for any Fiscal Year means the sum of all Funded Debt of such Person, provided that, for the purposes of this calculation, in the case of any amount treated as Debt pursuant to clause (3) of the definition of “Debt,” the principal of (and premium, if any) and interest and other debt service charges on such Debt for such period shall not be included in such calculation unless the Person that guaranteed or is otherwise obligated in respect of such Debt was actually required to make, or transfer funds to enable the obligor to make, any payment in respect of such Debt during such period, in which case the amount of the guarantee or other obligation to be included in any computation of the Total Debt of such Person for such period shall be equal to the total amount paid by such Person in respect of such guarantee or other obligation in such period.

“*Trustee*” means The Bank of New York Mellon Trust Company, National Association serving as trustee pursuant to the Master Indenture, and its successors and assigns permitted under the Master Indenture.



## THE MASTER INDENTURE

The following is a summary of certain selected provisions of the Master Indenture. Such summary does not purport to be a complete description of all of the terms and provisions of the Master Indenture. Reference is hereby made the Master Indenture for a complete description of the terms and provisions of such Master Indenture.

### Compliance Certificates and Reports

Whenever the amount or date of any of the following is a condition to the taking of any action permitted hereby, (i) estimated Available Revenues of any Person for any future Fiscal Year shall be established by either (1) a certificate or report of a Management Consultant stating the amount of such estimated Available Revenues based upon assumptions provided by such Person and stating that such assumptions are, in the opinion of the Management Consultant, reasonable; or (2) a report of such Person stating the amount of such estimated Available Revenues accompanied by an Officer's Certificate of such Person adopting such report that demonstrates that the amount of estimated Available Revenues of such Person (assuming the occurrence of such proposed action) for each of the 2 immediately succeeding Fiscal Years (or, in case any one or more substantial construction projects of any such Person are then in progress, for each of the 2 Fiscal Years immediately following the anticipated date of mechanical completion of such projects), shall be not less than 175% of the maximum Annual Debt Service Requirements of such Person for any future Fiscal Year; and (ii) any of: (1) Available Revenues of any Person for any period, (2) Adjusted Revenues of any Person for any period, (3) Annual Debt Service Requirements of any Person, (4) principal of and premium, if any, and interest and other debt service charges on any Debt, and (5) book value of any assets, shall be established by an Officer's Certificate of the Obligated Group Agent stating the amount of such item and that such amounts have been derived or calculated from the most recent financial statements of the Obligated Group delivered to the Trustee pursuant to the Master Indenture, or from the books and records of the Obligated Group and that such books and records have been maintained in compliance with the Master Indenture, provided that Available Revenues, Adjusted Revenues, and Annual Debt Service Requirements may be adjusted, at the election of the Obligated Group Agent, to eliminate items relating to transactions between Persons who are Obligated Group Members or Designated Members, as applicable, but whose financial information is reflected in separate Financial Statements, as though such items were intercompany items and such Persons' financial information was combined in a single set of Financial Statements.

All calculations required to be made under the Master Indenture shall be made after elimination of inter-company items. The character or amount of any asset, liability or item of income or expense required to be determined or any consolidation, combination or other accounting computation required to be made for the purposes of the Master Indenture, shall be determined or made in accordance with generally accepted accounting principles in the United States and on a basis consistent with the financial statements of the Obligated Group Agent for the fiscal year ended September 30, 2013, subject, however, to the following: (i) the Combined Group may, but shall not be required to, record as revenue or receivables the estimated realizable value of pledges when such pledges are made; and (ii) in addition to the departures from generally accepted accounting principles in the United States described in Clauses (i) and (iii), the Obligated Group Agent may elect in an Officer's Certificate delivered to the Trustee to utilize generally accepted accounting principles in the United States or any related standard or pronouncement in effect as of the date of a determination, certification, computation, or other action hereunder, until such time as such an election is made with respect thereto to utilize generally accepted accounting principles or any related standard or pronouncement coming into effect subsequent to the date of such prior election; and (iii) in addition to the departures from generally accepted accounting principles in the United States described in Clauses (i) and (ii), such departures as are necessary for the preparation of any special purpose financial statements delivered pursuant to the Master Indenture.

Notwithstanding any other provision in the Master Indenture to the contrary, (i) if the Combined Group wishes to effect a transaction for which it is necessary to determine or report certain financial information based upon Financial Statements for the immediately preceding Fiscal Year or the most recently ended Fiscal Year, and Financial Statements for such Fiscal Year are not available that have been audited by an independent certified public accountant and contain such independent certified public accountant's report thereon (or are otherwise contained in Financial Statements that have been audited by an independent certified public accountant and contain such independent certified public accountant's report thereon), the Combined Group may effect the transaction in question if the appropriate conditions are met, as evidenced by, at the election of the Obligated Group Agent,

information contained in (i) the Financial Statements for the Fiscal Year next preceding the one just ended or (ii) the unaudited financial statements of the Combined Group or the System for the Fiscal Year just ended, and (iii) for any and all purposes of the Master Indenture (other than for the delivery of Financial Statements to the Trustee pursuant to the provisions described under “Covenants of the Obligated Group – To Keep Books; Financial Reports and Inspection by Trustee” herein), including but not limited to computations or calculations of financial levels and ratios, and the application of any other quantitative financial tests or provisions, the Combined Group, at the option of the Obligated Group Agent, may, in the event that the Combined Group represents at least eighty percent (80%) of the System’s total revenues and unless the context specifically requires otherwise, utilize financial and other information either as shown on the most recent Combined Group Financial Statements or as shown on the most recent System Financial Statements, and any reference in the related provision of the Master Indenture to Financial Statements shall be deemed to be a reference to the Combined Group Financial Statements or the System Financial Statements, as applicable.

### **Covenants of the Obligated Group**

*Payment of Debt Service.* The Obligated Group will duly and punctually pay the principal of (and premium, if any) and interest on the Securities in accordance with the terms of the Securities and the Master Indenture.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Each Obligated Group Member jointly and severally unconditionally guarantees the full and timely payment of the principal of, and premium, if any, and interest on all Outstanding Securities which such Person has not created or otherwise made (and on which such Person is not otherwise primarily liable) in accordance with the terms thereof, whether at Stated Maturity, declaration of acceleration, call for redemption or otherwise. Such guaranty shall not be affected, modified or impaired upon the happening from time to time of any event, other than the payment of such Securities (or provision therefor), including, without limitation, any of the following, whether or not with notice to, or the consent of, the guarantor:

- (a) the waiver, compromise, settlement, release or termination by any Person of the obligations evidenced by such Securities or any covenant or security in support thereof;
- (b) the failure to give notice to the guarantor of the occurrence of an event of default under the terms and provisions of the Master Indenture or any agreement under which such Securities are created, assumed, guaranteed or secured;
- (c) any failure, omission or delay on the part of the Trustee or the Holder of such Securities to enforce, assert or exercise any right, power or remedy conferred on the Trustee or such Holder in the Master Indenture or any other agreement under which such Securities are created, assumed, guaranteed or secured;
- (d) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization or arrangement under bankruptcy or similar laws, composition with creditors or readjustment of, or other similar proceedings affecting any such guarantor or any other obligor on Securities;
- (e) any acts or circumstances that may constitute failure of consideration, destruction of or damage to any Property of the Member, commercial frustration of purpose, any change in the tax or other laws of the United States of America, the State or any political subdivision thereof, or any failure of the Obligated Group Agent or any Member of the Obligated Group to perform and observe any agreement, liability or obligation arising out of or connected with this undertaking, the Master Indenture, any undertaking of any other Obligated Group Member or any Security;

(f) the invalidity, irregularity, illegality, unenforceability or lack of value of, or any defect in any of the Securities so guaranteed or any collateral security therefor; or

(g) to the extent permitted by law, any event or action that would, in the absence of this provision, result in the release or discharge by operation of law of such guarantor from the performance or observance of any obligation, covenant or agreement contained in the Master Indenture.

Each Obligated Group Member will cause each of its Designated Members to make contributions, advances or loans subordinate in time and right of payment to the Securities to the Obligated Group Member from any funds lawfully available for such purpose to the extent necessary to provide for the due and punctual payment of the principal of, and premium, if any, and interest on the Outstanding Securities in accordance with the terms thereof, whether as primary obligor or guarantor; provided that no Obligated Group Member will be required to cause any Designated Member to make any transfer that would likely, in the Opinion of Counsel satisfactory to the Obligated Group Agent and the Trustee, cause the members of the Governing Body of the Designated Member to incur personal liability to the other creditors of the Designated Member solely as a result of such transfer.

*Maintenance of Properties.* Each Obligated Group Member will cause (and will cause each of Designated Members to keep) all its Properties used or useful in the conduct of its business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, ordinary wear and tear, casualty, condemnation and acts of God excepted. Each Obligated Group Member will cause to be made (and will cause each of Designated Members to make) all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of such Person may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this provision shall prevent any such Person from discontinuing the operation and maintenance of any of its Properties if such discontinuance is, in the judgment of such Person (and in the opinion of the Governing Body of such Person if the Property involved is any substantial part of the Properties of such Person taken in the aggregate), desirable in the conduct of its business and not disadvantageous in any material respect to the Holders of the Securities.

*Money for Security Payments to be Held in Trust; Appointment of Paying Agent.* The Obligated Group Agent shall appoint a paying agent in each Place of Payment for each series of the Securities. Each such paying agent appointed by the Obligated Group Agent shall be a corporation or association organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10,000,000, subject to supervision or examination by federal or state authority. The Obligated Group Agent will, on or before the due date of the principal of (and premium, if any) or interest on any Securities, deposit with a paying agent a sum in immediately available funds sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Holders of such Securities, and (unless such paying agent is the Trustee) the Obligated Group Agent will promptly notify the Trustee of its action or failure so to act. Each paying agent for the Securities shall provide the CUSIP number for the Security with each payment of interest or the redemption price of any Security. The paying agents shall make payment of interest or the redemption price of any Security by wire transfer of Federal Reserve Funds to any owner of \$1,000,000 or more in principal amount of Securities requesting such payment and providing the necessary information.

The Obligated Group Agent will cause each paying agent other than the Trustee to execute and deliver to the Trustee and the Obligated Group Agent an instrument in which such paying agent shall agree with the Trustee, subject to the provisions of the Master Indenture, that such paying agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as provided in the Master Indenture;

(2) give the Trustee prompt notice of any default by the Obligated Group Agent (or any other obligor upon the Securities) in the making of any such payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent.

The Obligated Group Agent may at any time, for the purpose of obtaining the satisfaction and discharge of the Master Indenture or for any other purpose, by Obligated Group Agent Order direct any paying agent to pay to the Trustee all sums held in trust by such paying agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any paying agent in trust for the payment of the principal of (and premium, if any) or interest on any Security and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Security or the installment of interest for the payment of which such money is held or (ii) the maximum amount of time permitted under the laws of the State after such principal (and premium, if any) or interest has become due and payable shall be paid to the Obligated Group Agent on Obligated Group Agent Order and the Holder of such Security shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Obligated Group for payment thereof, and all liability of the Trustee or such paying agent with respect to such trust money, and all liability of the Obligated Group (excluding the Obligated Group Agent), shall thereupon cease.

*Payment of Taxes and Other Claims.* Each Obligated Group Member will (and will cause each of its Designated Members to) pay or discharge or cause to be paid or discharged before the same shall become delinquent, (1) all taxes, assessments and other governmental charges lawfully levied or assessed or imposed upon it or upon its income, profits or Property, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon its Property; provided, however, that no such Person shall be required to pay and discharge or cause to be paid and discharged any such tax, assessment, governmental charge or claim to the extent that the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and such Person shall have established and shall maintain adequate reserves on its books for the payment of the same.

*Statement as to Compliance.* Each Obligated Group Member will deliver to the Trustee, by the 15th day of the fifth month after the end of each Fiscal Year, a written statement signed by an Authorized Officer, stating that:

(1) a review of the activities of such Obligated Group Member and its Designated Members during such year and of performance under the Master Indenture has been made under the signer's supervision, and

(2) to the best of the signer's knowledge, based on such review, the Obligated Group Member and its Designated Members have fulfilled all of its obligations under the Master Indenture (including specifically, but without limitation, their obligations described under " – To Maintain Rates") throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to the signer and the nature and status thereof.

The Obligated Group Agent will deliver to the Trustee promptly upon the discovery thereof a written statement describing any default which has not been cured or waived known to the chief financial officer of the Obligated Group Agent under any instrument creating any material Debt of any member of the Combined Group, specifying such default and the nature and status thereof.

*Corporate Existence.* Subject to the Master Indenture, each Obligated Group Member will (and will cause each of its Designated Members to) do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory) and franchises; provided, however, that no Person shall be required to preserve any right or franchise if the Governing Body of such Person shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Securities

*To Keep Books; Financial Reports and Inspection by Trustee.*

Each Obligated Group Member will (and will cause each of its Designated Members to) at all times keep books or records and accounts, in accordance with generally accepted accounting principles as of the date thereof, and the Obligated Group Agent will furnish to the Trustee, as soon as available, and in any event by the 15th day of the fifth month following the end of each Fiscal Year, the Financial Statements showing results of operations of the System or the Combined Group as of the end of such Fiscal Year or for such Fiscal Year then ended, as applicable, together with the report of a nationally recognized, Independent Accountant selected by the Obligated Group Member or Designated Member who has examined such statements in accordance with generally accepted auditing standards (except that at the option of the Obligated Group Member or Designated Member such financial statements need not include entities that are not members of the Combined Group), as to the fairness of presentation of such statements. Any Person whose financial information is reflected or reported in the Financial Statements of another Person need not submit separate financial statements pursuant to the Master Indenture. Such financial statements (i) may consist of (1) System Financial Statements, or (2) Combined Group Financial Statements; (ii) shall be audited (or in the case of the Combined Group Financial Statements that are contained in System Financial Statements, the System Financial Statement shall be audited) and shall contain an Independent Accountant's report thereon, which report shall include an unqualified opinion to the effect that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of such Person in conformity with generally accepted accounting principles (except, in the case of special purpose financial statements, for required consolidations) for such period; and (iii) shall contain such statements necessary for a fair presentation of unrestricted net assets or net worth, results of operations and changes in unrestricted net assets or net worth and financial position as at the end of such reporting period, all stated in accordance with generally accepted accounting principles as of the date thereof consistently applied (except, in the case of special purpose financial statements, for required consolidations).

Following each fiscal quarter the Obligated Group Agent will furnish to the Trustee quarterly unaudited financial statements for each fiscal quarter (other than the last fiscal quarter of any Fiscal Year) of the Combined Group or the System as soon as practicable after they are available but in no event more than 60 days after the completion of such fiscal quarter, including a combined or combining statement of revenues and expenses of the Combined Group during such period, a combined or combining balance sheet as of the end of each such fiscal quarter, all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Obligated Group Agent.

At any and all times during normal business hours, upon the written request of the Trustee (who shall be under no duty to make such request unless directed to do so by the Holders of at least a majority in principal amount of Securities then Outstanding or by any Credit Enhancer), each Obligated Group Member will permit the Trustee, by its agents and attorneys, to inspect the Property of such Obligated Group Member or any of its Designated Members, or any of their consolidated subsidiaries and to examine all the books of account, records, reports and other financial papers of such Persons and to take copies and extracts therefrom, and each Obligated Group Member will (and will cause each of its Designated Members to) furnish the Trustee any and all such other information as the Trustee may reasonably request with respect to the performance or observance by such Persons of their covenants in the Master Indenture.

The Obligated Group Agent may designate a different Fiscal Year for the members of the Combined Group by delivering a notice to the Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Obligated Group Agent covenants that it will furnish to the Trustee, as soon as practicable after it is available, but in no event more than the 15th day of the fifth month following the last day of such Interim Period, a financial report for such Interim Period certified by an Independent Accountant selected by the Obligated Group Agent covering the operations of the System or the Combined Group, at the discretion of the Obligated Group Agent, for such Interim Period and containing a combined balance sheet as of the end of such Interim Period, a combined statement of changes in unrestricted net assets or net worth and financial position for such Interim Period, and a combined statement of revenues and expenses for such Interim Period.

*Insurance.* Each Obligated Group Member will at all times keep all its Property and operations of an insurable nature and of the character usually insured by companies operating similar properties and engaged in

similar operations insured in amounts customarily carried, and against loss or damage from such causes as are customarily insured against, by similar companies. All such insurance shall be obtained from responsible insurance carriers except to the extent a program of self-insurance determined by the Governing Body of such Obligated Group Member to be sufficient shall be in effect.

*Limitation on Liens.* Each Obligated Group Member will (and will cause their Designated Members to) not grant, create, assume or incur or suffer to be granted, created, assumed or incurred or to exist any mortgage, lien, charge or encumbrance of any kind upon, or pledge of or security interest in, any Property (including without limitation all Revenues) of such Person whether owned on February 1, 2020 or hereafter acquired excluding, however, from the operation of the foregoing:

(a) Within the Obligated Group. Mortgages, liens, charges, encumbrances, pledges or other security interests created by any member of the Combined Group as security for Debt owed to any other member of the Combined Group; or

(b) Permitted Encumbrances; or

(c) Purchase and Construction Money. Purchase or construction money mortgages, liens, charges, encumbrances, pledges or security interests (which term for purposes of this clause (c) shall include conditional sale agreements or other title retention agreements and leases in the nature of title retention agreements) upon or in Property acquired or improved after February 1, 2020, or renewals of any such mortgages, liens, charges, encumbrances, pledges or security interests in connection with the replacement, extension or renewal (without increase in principal amount) of the Debt secured thereby, provided that no such mortgage, lien, charge, encumbrance, pledge or security interest extends or shall extend to or cover any Property of any member of the Combined Group other than the Property then being acquired or constructed or on which improvements are being so constructed, and fixed improvements then or thereafter erected thereon and related insurance coverage and proceeds; or

(d) Pari Passu. Any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind upon any Property of any character of any member of the Combined Group or any conditional sale agreement or similar title retention agreement with respect to any such Property, if such Person shall make effective provision, and each member of the Obligated Group covenants that in any such case it will make or cause to be made effective provision (on behalf of itself or its Designated Member), whereby all the Outstanding Securities shall be directly secured by such mortgage, lien, charge, encumbrance, pledge or other security agreement equally and ratably upon the same Property, or upon other Property with a Fair Market Value at least equal to the Fair Market Value of Property to be mortgaged, with any and all other obligations and indebtedness thereby secured for so long as such obligations or indebtedness are so secured; or

(e) Existing Liens. Any mortgage, lien, charge, encumbrance, pledge or other security interest that is existing on any Property of an Obligated Group Member on February 1, 2020 or any mortgage, lien, charge, encumbrance, pledge or other security interest that is existing on any real or personal Property on the date of acquisition thereof, or that is existing on the Property of any Person on the date such Person becomes a member of the Obligated Group; provided that no lien so described or the Debt secured thereby may be extended or renewed or may be modified to spread to any Property of a member of the Combined Group not subject to such lien on such date, except to the extent that such lien, as so extended, renewed or modified could have been granted or created under any provision hereof; or

(f) Swap Collateral. Any mortgage, lien, charge, encumbrance, pledge or other security interest on any Property securing Hedge Payments or Hedge Extraordinary Payments, which are created in accordance with the terms of any such Hedge Agreements, and do not secure any other obligations and do not benefit any secured party other than the Hedge Agreement counterparty and its Affiliates and assigns; or

(g) Basket. Any mortgage, lien, charge, encumbrance, pledge or other security interest of any kind, including any security interest or pledge in accounts receivable and the proceeds thereof securing

an obligation on the part of one or more members of the Combined Group to repurchase or replace accounts receivable sold, if the book value (or, at the option of the Obligated Group Agent, current value) of all Property of the Combined Group subjected to mortgages, liens, charges, encumbrances, pledges or other security interests pursuant to this clause does not exceed 20% of the net book value (or, if the Obligated Group Agent chooses to use the current value of the Property so subjected, 20% of the current value) of all Property of the Combined Group; or

(h) Defeasance Deposit. Any lien on, security interest in, or pledge of money or obligation deposited with a trustee or escrow agent to cause Debt to be no longer outstanding in accordance with the instrument under which such Debt is issued; or

(i) Accounts Receivable. Any mortgages, liens, charges, pledges, or other security interests or encumbrances of, on, or in accounts receivable and the proceeds thereof securing an obligation to repurchase or replace accounts receivable sold so long as (i) the maximum amount secured by such mortgage, lien, charge, pledge, or other security interest or encumbrance does not exceed the aggregate sales price of such accounts receivable received by the member of the Combined Group selling the same by more than 20%, or (ii) the aggregate amount secured by such mortgages, liens, charges, pledges, or other security interests or encumbrances does not exceed 30% of the Combined Group's aggregate net patient accounts receivable and grants and other receivables, as reflected in the Combined Group Financial Statements for the Fiscal Year preceding or any consecutive 12-month period ending within 180 days preceding the date of creation of such mortgage, lien, charge, pledge, or other security interest or encumbrance; or

(j) Reserve Funds. Any lien on, security interest in, or pledge of money or obligations set aside or deposited with a trustee to fund a depreciation, debt service, or other reserve fund with respect to Debt in accordance with the instrument under which such Debt may be secured; or

(k) Refunding Liens. Any mortgage, lien, charge, pledge, or other security interest or encumbrance of, on, or in any Property of a member of the Combined Group securing Debt that is incurred to refinance Debt previously secured by such mortgage, lien, charge, pledge, or other security interest or encumbrance, provided that the aggregate principal amount of such new Debt does not exceed the aggregate principal amount of such refinanced Debt; or

(l) Donations and Gifts. Security interests in pledges of donations, gifts, or other charitable contributions to such Person to secure Debt the principal of which is fully secured by a security interest in pledges to make a donation, gift, or other charitable contribution to a member of the Combined Group on or before the Stated Maturity of such Debt;

An oil or gas royalty, overriding royalty or production payment shall not be deemed to be a charge or encumbrance upon the related working interest

*Limitation on Debt.* Each Obligated Group Member covenants that it will (and will cause its Designated Members to) not incur any additional Debt unless the Debt proposed to be incurred is described below:

Funded Debt. Funded Debt, other than Funded Debt otherwise described in this section of the Master Indenture or under “ – Limitation on Debt” herein, incurred for any purpose if prior to incurrence of such Funded Debt the Trustee receives an Officer's Certificate to the effect that the Historical Debt Service Coverage Ratio of the Combined Group for the Fiscal Year next preceding the date of incurrence of such Debt, was at least 1.15:1.0 (with respect to the Funded Debt of the Combined Group outstanding immediately prior to the incurrence of such Debt), and either: (i) after giving effect to the incurrence of such Debt, the Combined Group will have a Debt to Capitalization Ratio not greater than 66-2/3%, or (ii) either the Pro Forma Debt Service Coverage Ratio of the Combined Group would have been, or the Projected Debt Service Coverage Ratio of the Combined Group is expected to be not less than, 1.15:1.0.

Completion Debt. Funded Debt incurred by an Obligated Group Member for the purpose of financing the completion, constructing, or equipping of facilities for which Funded Debt had previously been incurred and which the Obligated Group Member in good faith expected to be sufficient to complete such facilities, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time and in accordance with the general plans and specifications for such facility as originally prepared, with only such changes as have been made in conformance with the documents pursuant to which such Funded Debt was originally incurred.

Refunding Debt. Debt of an Obligated Group Member incurred to refund or defease any Debt of an Obligated Group Member.

Short Term. Debt payable on demand or that matures not more than one year from the date of incurrence, extension, or renewal (other than Debt which could come due on demand by the holder thereof, but that has a Stated Maturity greater than one year from such date), if

(i) the amount of Debt incurred pursuant to this clause and then Outstanding, including the Debt proposed to be incurred, does not exceed, at the time of incurrence, 25% of the Adjusted Revenues of the Obligated Group for the Fiscal Year preceding, or any consecutive 12-month period of comparable length ending within 180 days preceding, the date of incurrence; and

(ii) there has been a period of 10 consecutive days within the 12 month period immediately preceding the date of such incurrence, extension or renewal (and the Obligated Group will maintain, or cause to be maintained at least 1 such period in each Fiscal Year) during which the total amount of Outstanding Debt of the Obligated Group incurred pursuant to this clause does not exceed 5% of the Adjusted Revenues of the Obligated Group for the Fiscal Year preceding, or any period of comparable length ending within 180 days preceding the date of incurrence.

Nonrecourse. Debt incurred by any Person to acquire or improve Property which by its terms gives the holder thereof no right to seek payment of any deficiency from such Person or from any other Property of such Person.

Subordinated. Debt specifically subordinated as to payment and security to payment of the Securities upon liquidation or reorganization and upon the occurrence and continuance of an Event of Default.

Credit Facilities. Reimbursement or other repayment obligations arising under reimbursement or similar agreements with banks or other financial institutions relating to letters or lines of credit or other credit facilities used to secure or provide liquidity with respect to Debt.

Basket. Debt incurred pursuant to this clause, if such Debt does not exceed 25% of the Adjusted Revenues of the Combined Group for the Fiscal Year preceding, or any consecutive 12-month period ending within 180 days preceding, the date of incurrence. Debt incurred pursuant to this clause shall cease to be treated as having been incurred under this clause and shall be instead treated as incurred under another clause of the Master Indenture or under “ – Limitation on Debt” herein on the date on which there are delivered to the Trustee the certificates and reports necessary to demonstrate that such Debt could be incurred pursuant to such other clauses of the Master Indenture or under “ – Limitation on Debt” herein.

Mandated Debt. Debt that is incurred to construct, renovate or replace any Property of a member of the Combined Group if federal or state agencies, authorities, officials or similar governmental bodies with jurisdiction over the member of the Combined Group specifically mandate such construction, renovation or replacement as a condition to the member of the Combined Group being able to continue to carry on such of its activities as are subject to the jurisdiction of such federal or state agency, authority, official or similar governmental body.



*To Maintain Rates.* In each Fiscal Year, each Obligated Group Member will (and will cause each of its Designated Members to) establish, charge and use its reasonable efforts to collect rates, fees and charges for goods and services furnished by, and for the use of, its Properties which, if collected, would be sufficient to cause the Historical Debt Service Coverage Ratio of the Combined Group for the current Fiscal Year to be not less than 1.10. If the Historical Debt Service Coverage Ratio of the Combined Group for any Fiscal Year is less than 1.10, the Obligated Group Agent, by the 15th day of the fifth month after the close of such Fiscal Year, shall engage a Management Consultant to make recommended changes in rates, fees and charges or expenses, or in such other affairs, such that the Historical Debt Service Coverage Ratio of the Combined Group for the current Fiscal Year will be at least 1.10. Subject to any contractual commitments or Legal Restrictions to which the members of the Combined Group may be subject, each Obligated Group Member will (and will cause its Designated Members to) implement such changes to the fullest extent practicable.

The failure of the Combined Group to attain a Historical Debt Service Coverage Ratio of 1.10 for any Fiscal Year shall not be a default under the Master Indenture if such Management Consultant is so retained and the recommendations of such Management Consultant are so implemented and the Historical Debt Service Coverage Ratio of the Combined Group is equal to at least 1.0 for the Fiscal Year next following the Fiscal Year in which the Management Consultant is engaged. Moreover, if such Management Consultant concludes that applicable Legal Restrictions have caused the Historical Debt Service Coverage Ratio of the Combined Group for the prior Fiscal Year to be less than 1.10, it shall not constitute a default under the Master Indenture if a certificate of such Management Consultant (supported by an Opinion of Counsel, if so required by the Trustee) shall be delivered to the Trustee stating that, taking into account such Legal Restrictions, the Historical Debt Service Coverage Ratio of the Combined Group estimated for the current Fiscal Year and for each of the next two Fiscal Years will be the maximum amount permitted by such Legal Restrictions and at least 1.0.

*Sale, Lease or other Disposition of Property.* Each Obligated Group Member covenants that it shall (and will cause its Designated Members to) not, in any Fiscal Year, sell, lease or otherwise dispose of any Property, except for sales, leases or dispositions of Property (a) in the ordinary course of business; (b) in connection with a true sale and leaseback under the Code; (c) if, in the opinion of the Obligated Group Member whose Property is involved, such Property has, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary, and the sale, lease, removal or other disposition thereof will not materially adversely impair the operations of such Obligated Group Member; (d) to any Person, provided that prior to the sale, lease or disposition of Property, the Trustee shall have received an Officer's Certificate to (i) the effect that the condition described in the Master Indenture would be met for the incurrence of one dollar of additional Funded Debt immediately following such sale, lease or disposition, or (ii) an Officer's Certificate to the effect that the Projected Debt Service Coverage Ratio for the first Fiscal Year succeeding such sale, lease or disposition is expected to be equal to or greater than the Historical Debt Service Coverage Ratio for the Fiscal Year ended immediately prior to such sale, lease or disposition, but not less than 1.0:1.0; (e) to any Person, provided that such Property was received by an Obligated Group Member as a gift, grant, bequest or donation and is restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, prepayment premium and interest on Debt or the payment of operating expenses; (f) to any Person, provided that such Property is transferred for Fair Market Value; (g) in connection with the lease or license of a part of Property in connection with the economical use of such Property; (h) to another member of the Combined Group; or (i) the value of such Property so sold, leased or otherwise disposed of in any Fiscal Year does not exceed 10% of the Fair Market Value or, at the option of the Obligated Group Agent, the book value of the Property of the Combined Group.

*Waiver of Certain Covenants.* Each Obligated Group Member may omit in any particular instance to comply with any covenant or condition set forth above if such omission is consented to in the Master Indenture if before or after the time for such compliance the Holders of the same percentage in principal amount of all Securities then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of each Obligated Group Member and the duties of the Trustee in respect of any such covenant or condition shall remain in full force and effect.

*Covenants of the Designated Members.* Each Designated Member agrees with, and for the benefit of, each Obligated Group Member to:

(a) make to such Obligated Group Member contributions, advances or loans the repayment of which is subordinate in time and right of payment to the Outstanding Securities, to the extent of funds lawfully available for such purpose, to the extent necessary to provide for the due and punctual payment of the principal of (and premium, if any) and interest and other debt service charges and payment obligations on all Outstanding Securities in accordance with the terms hereof whether such Designated Member is the primary obligor or a guarantor with respect to such Security; provided, however, that no Designated Member shall be required to make any transfer that would likely, in the Opinion of Counsel satisfactory to such Designated Member and the Trustee, cause the members of the Governing Body of such Designated Member to incur personal liability to other creditors of such Designated Member as a result of such transfer; and

(b) perform all other covenants and comply with all other restrictions applicable to such Designated Member under the Master Indenture.

*Flagship.* Notwithstanding to anything to the contrary in the Master Indenture, the Hospital shall at all times remain a Member of the Obligated Group.

### **Consolidation, Merger, Conveyance and Transfer**

*Consolidation, Merger, Conveyance and Transfer.* No Obligated Group Member shall consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless (a) such consolidation, merger or transfer (i) is between Members of the Obligated Group, and (ii) the surviving Person is an Obligated Group Member, or (b) all of the following conditions exist: (i) the Person formed by such consolidation or into which the Obligated Group Member merges or the Person which acquires substantially all of the Properties of the Obligated Group Member as an entirety shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and shall expressly assume by instrument supplemental hereto executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal (and premium, if any) and interest on the Securities and the performance and observance of every covenant and condition hereof on the part of the Obligated Group Member to be performed or observed; (ii) immediately after giving effect to such transaction, no default under the Master Indenture will have occurred and be continuing; and (iii) the Obligated Group Agent has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger, conveyance or transfer and such supplemental instrument comply with the Master Indenture, that such consolidation, merger, conveyance or transfer will not affect the status of interest on any indebtedness secured by Outstanding Securities under the Code, and that all conditions precedent provided in the Master Indenture for relating to such transaction have been complied with.

*Successor Corporation Substituted.* Upon any consolidation or merger or any conveyance or transfer of the Properties and assets of an Obligated Group Member substantially as an entirety in accordance with the Master Indenture, the successor Person formed by such consolidation or into which the Obligated Group Member is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, such Obligated Group Member under the Master Indenture with the same effect as if such successor Person had been named as such Obligated Group Member in the Master Indenture; provided, however, that no such conveyance or transfer shall have the effect of releasing any other Person which shall theretofore have become an Obligated Group Member in the manner described in this section from its liability as obligor and maker or guarantor on any of the Securities.

### **Membership in the Obligated Group**

*Admission of Obligated Group Members.* A Person may become an Obligated Group Member only if:

(a) the Person proposing to become an Obligated Group Member shall execute and deliver to the Trustee a Supplemental Indenture which evidences the agreement of such Person while such Person is

an Obligated Group Member (i) jointly and severally to assume or guarantee on the terms provided in the Master Indenture the obligation to pay all Securities then Outstanding and thereafter incurred and (ii) to observe and perform the obligations of each Obligated Group Member set forth in the Master Indenture;

(b) the Obligated Group Agent has consented to the inclusion of such Person as an Obligated Group Member as evidenced by an Obligated Group Agent Consent;

(c) immediately after giving effect to such admission, no Default under the Master Indenture has occurred and is continuing;

(d) the Obligated Group Agent has delivered to the Trustee an Officer's Certificate stating that the admission and such Supplemental Indenture comply with the terms of the Master Indenture and that all conditions precedent relating to such transaction have been complied with; and

(e) the Obligated Group Agent has delivered to the Trustee an Opinion of Counsel stating that the admission and such Supplemental Indenture comply with the Master Indenture, that such admission will not adversely affect the exclusion from gross income of interest under the Code on any indebtedness secured by Outstanding Securities and otherwise entitled to such exemption, that the Supplemental Indenture required by subparagraph (a) above and the Master Indenture as so supplemented each constitute legal, valid and binding obligations of such Person enforceable in accordance with their respective terms subject to customary exceptions, that the admission of such Person as an Obligated Group Member will not adversely affect the enforceability of the Master Indenture against any Obligated Group Member, and that all conditions precedent provided in the Master Indenture relating to such transaction have been complied with.

*Obligated Group Members.* Upon any Person becoming an Obligated Group Member as provided in the Master Indenture: (a) the Trustee may pursue any remedies consequent upon an Event of Default against any Obligated Group Member, or all of them, without notice to, demand upon or joinder of (and without in any way releasing) any of the others, or against any one or more or all of them at the same time or at different times including enforcement of Designated Members' undertakings to the Obligated Group Member; (b) any right of contribution or right acquired by subrogation by any Obligated Group Member against any other Obligated Group Member arising out of the payment of Debt is required to be subordinated in time and right to the rights of the Trustee and the Holders of Securities; and (c) each Obligated Group Member shall be deemed to have irrevocably designated the Obligated Group Agent as its attorney in fact with full power of substitution to perform, satisfy and discharge every obligation, covenant, duty or liability to be performed on the part of the Obligated Group Member under the Master Indenture, to exercise any right, privilege or power hereunder or in respect of any Security, and to execute and deliver in the name and on behalf of such Obligated Group Member any instrument required or permitted to be executed by such Obligated Group Member under the Master Indenture.

*Withdrawal of Obligated Group Members.* Any Obligated Group Member may, upon 30 days' prior written notice to the Trustee, withdraw as an Obligated Group Member, and the Trustee, upon Request of such Obligated Group Member and at such withdrawing Obligated Group Member's expense, is required to execute and deliver an appropriate instrument releasing such Obligated Group Member from any liability or obligation under the provisions of the Master Indenture provided that: (a) the withdrawing Obligated Group Member has requested such release by Board Resolution; (b) either, the withdrawing Obligated Group Member does not have any Securities Outstanding, or each remaining Obligated Group Member confirms the obligation of such remaining Obligated Group Member to repay any Securities of such withdrawing Obligated Group Member Outstanding after such withdrawal; (c) immediately after giving effect to such withdrawal, no Default hereunder will have occurred and be continuing; (d) each Member of the Obligated Group (or the Obligated Group Agent on the Obligated Group's behalf) has delivered to the Trustee an Officer's Certificate stating that such Member of the Obligated Group has by Board Resolution consented to such withdrawal and that all conditions precedent relating to such withdrawal have been complied with; and (d) the Obligated Group Agent has delivered to the Trustee an Opinion of Counsel stating that such withdrawal will not affect the status of interest under the Code on any indebtedness secured by Outstanding Securities and that all conditions precedent relating to such withdrawal have been complied with. Any Person that has withdrawn from the Obligated Group is eligible to become a Member of the Obligated Group in accordance with the provisions of the Master Indenture.

*Designation as a Designated Member.* Any Person shall become a Designated Member of an Obligated Group Member upon Request of the Obligated Group Member that such Person becomes a Designated Member of accompanied by:

- (a) a written undertaking for the benefit of the Combined Group and the Trustee executed by such Person evidencing the agreement of such Person to observe and perform the obligations of a Designated Member in accordance with the Master Indenture, and to comply with all covenants in the Master Indenture that apply to Designated Members for so long as such Person remains a Designated Member;
- (b) a Board Resolution of such proposed Designated Member authorizing such undertaking;  
and
- (c) an Opinion of Counsel to the effect that any transfers of money by such proposed Designated Member to an Obligated Group Member to the extent required under the Master Indenture are permissible under the laws of the jurisdiction in which such proposed Designated Member is organized except to the extent that such transfers would (1) render such proposed Designated Member insolvent, (2) conflict with any applicable statutory provision relating to fraudulent transfers, and (3) in the case of any transfer by dividend, violate applicable statutory restrictions on the declaration and payment of dividends by such proposed Designated Member.

*Release of Designated Member.* Any Person shall be released from its obligations and status as a Designated Member upon Request of the Obligated Group Member that is then the beneficiary of the undertaking described in the Master Indenture that such Person no longer be a Designated Member if the Trustee receives an Officer's Certificate of the Obligated Group Member requesting such release, dated within 10 days of the date of such Request, stating that all conditions precedent provided under the Master Indenture relating to the release of such Person as a Designated Member have been complied with and that, were such Person released as a Designated Member on the date of such Officer's Certificate, no Default would arise out of such release

## **Remedies of the Trustee and Holders of Securities in Event of Default**

*Events of Default.* "Event of Default," whenever used in the Master Indenture, means any one of the following events (whatever the reason for such Event of Default and whether it such event is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (a) default in the payment of the principal of, the premium, if any, or interest on any Security at its Stated Maturity; or
- (b) default in the performance, or breach, of any covenant or agreement on the part of any Obligated Group Member contained in the Master Indenture (other than a covenant or agreement whose performance or observance is waived pursuant to the Master Indenture or whose performance or observance is elsewhere in the Master Indenture specifically dealt with) and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Obligated Group Agent by the Trustee, or to the Obligated Group Agent and the Trustee by the Holders of at least 25% in principal amount of Securities then Outstanding, a written notice specifying such default or breach and requiring it to be remedied; and stating that such notice is a "Notice of Default" under the Master Indenture; provided that if such default can be cured by the Obligated Group Members but cannot be cured within the 60 day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Obligated Group Members within such 60 day period and diligently pursued until the default is corrected; or
- (c) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging any Member of the Obligated Group bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of any Obligated Group Member under the federal

Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of any Obligated Group Member or of the Property of any Obligated Group Member, or for the winding up or liquidation of an Obligated Group Member's affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

(d) any Obligated Group Member shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the federal Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its Property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Obligated Group Member in furtherance of any of the aforesaid purposes; or

(e) an event of default, as therein defined, under any instrument under which Securities may be incurred or secured, or under which Debt issued by or on behalf of a state or a political subdivision secured by a pledge of Securities is incurred or secured, occurs and is continuing beyond the applicable period of grace, if any.

*Acceleration of Maturity in Certain Cases; Rescission and Annulment.* If an Event of Default occurs and is continuing, then and in every such case the Trustee or the Holders of not less than 25% in principal amount of (i) the Securities of any series then Outstanding, if such Event of Default arises by reason of the failure of the Obligated Group Agent or any Obligated Group Member to pay the principal of, premium or interest on any Security of such series or by reason of the acceleration of any indebtedness evidenced, collateralized or secured by any Security of such series, or (ii) the Securities Outstanding (or, in the case of any Event of Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Securities, the Holders of not less than 25% in principal amount of the Securities Outstanding of the affected series) may declare the principal of all of the Securities to be due and payable immediately, by a notice in writing to the Obligated Group Agent (and to the Trustee if given by the Security Holders), and upon any such declaration such principal shall become immediately due and payable.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee provided in the Master Indenture, the Holders of a majority in principal amount of the Securities Outstanding, by written notice to the Obligated Group Agent and the Trustee, may rescind and annul such declaration and its consequences if (i) the Obligated Group Agent or the Obligated Group has caused to be paid or deposited with the Trustee (other than from payments by a Credit Enhancer unless all overdue amounts owed to any Credit Enhancer have been repaid) a sum sufficient to pay all overdue installments of interest on all Securities, the principal of (and premium, if any, on) any Securities which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Securities; and all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and (ii) all Events of Default, other than the nonpayment of the principal of Securities which have become due solely by such acceleration, have been cured or waived as provided in the Master Indenture.

*Collection of Indebtedness and Suits for Enforcement by Trustee.* Each Obligated Group Member covenants that if (i) default is made in the payment of any installment of interest on any Security when such interest becomes due and payable, or (ii) default is made in the payment of the principal of (or premium, if any, on) any Security when such principal becomes due and payable, each Obligated Group Member will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel. If any Obligated Group Member fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of

the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against such Obligated Group Member or any other obligor upon the Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the Property of the Obligated Group Member or any other obligor upon the Securities, wherever situated..

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Master Indenture or in aid of the exercise of any power granted in the Master Indenture, or to enforce any other proper remedy.

*Limitation on Suits.* No Holder of any Security has any right to institute any proceeding, judicial or otherwise, with respect to the Master Indenture, or for the appointment of a receiver or a trustee, or for any other remedy hereunder, unless (i) such Holder has previously given written notice to the Trustee of a continuing Event of Default; (ii) the Holders of not less than 25% in principal amount of the Outstanding Securities (or of the affected series of Securities to the extent permitted by the Master Indenture) has made written request to the Trustee to institute proceedings with respect to such Event of Default in its own name as Trustee under the Master Indenture; (iii) such Holder or Holders has offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such notice, request and furnishing of indemnity has failed to institute any such proceeding; and (v) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Holders of a majority in principal amount of the Outstanding Securities; it being understood and intended that no one or more Holders of Securities shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Master Indenture to affect, disturb or prejudice the rights of any other Holders of Securities, or to obtain or to seek to obtain priority or preference over any other Holders, or to enforce any right under the Master Indenture, except in the manner provided in the Master Indenture and for the equal and ratable benefit of all the Holders of Securities.

*Control by Holders of Securities.* The Holders of a majority in principal amount of the Outstanding Securities have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that (i) such direction is not in conflict with any rule of law or with the Master Indenture, and (ii) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

## **Concerning the Trustee**

*Duties and Liabilities of Trustee.* (a) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture and no implied covenants or obligations may be read into the Master Indenture against the Trustee. (b) If an Event of Default has occurred and is continuing, the Trustee is directed to exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of its own affairs. (c) No provision of the Master Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except, (i) subsection (c) is not construed to limit the effect of subsection (a); (ii) that the Trustee is not liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; (iii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of the Master Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the specific requirements of the Master Indenture; (iv) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of Securities then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Master Indenture; and (v) regardless of whether an Event of Default has occurred and is continuing, no provision of the Master Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties under the

Master Indenture or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it. Whether or not expressly so provided, every provision of the Master Indenture related to the conduct or affecting the liability of or affording protection to the Trustee is subject to the provisions of the Master Indenture.

*Corporate Trustee Required; Eligibility.* There will at all times be a Trustee under the Master Indenture which shall be an entity organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$100,000,000, subject to supervision or examination by federal or state authority. If such entity publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of the Master Indenture, the combined capital and surplus of such entity shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of the Master Indenture, it shall resign immediately in the manner and with the effect specified in the Master Indenture.

*Resignation and Removal; Appointment of Successor.* No resignation or removal of the Trustee and no appointment of a successor Trustee may become effective until the acceptance of appointment by the successor Trustee. The Trustee may resign at any time by giving written notice to the Obligated Group Agent and to each Credit Enhancer. If an instrument of acceptance by a successor Trustee has not been delivered to the Trustee within 30 days after the giving of notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Trustee may be removed at any time by the (i) act of the Holders of a majority in principal amount of the Outstanding Securities, delivered to the Trustee and the Obligated Group Agent, (ii) so long as no Event of Default has occurred and is continuing, by Obligated Group Agent Order accompanied by Consent of each Credit Enhancer, delivered at least 60 days prior to the proposed removal date; provided that at any time within six months after any Obligated Group Agent Order removing the Trustee, such Order may be revoked by Act of the Holders of a majority in principal amount of the Outstanding Securities not held by the Trustee and of the holders of a majority in principal amount of debt secured by Outstanding Securities held by the Trustee in its capacity as Trustee under indentures securing other debt; or (iii) by Order of any Credit Enhancer. If the Trustee ceases to be eligible under the Master Indenture or becomes incapable of acting or is adjudged a bankrupt or insolvent or a receiver of the Trustee or its Property is appointed or any public officer takes charge or control of the Trustee or of its Property or affairs for the purpose of rehabilitation conservation or liquidation, the Obligated Group Agent by an Obligated Group Agent Request may remove the Trustee, or subject to the Master Indenture, any Holder of Securities who has been a bona fide Holder of a Security for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of successor Trustee.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Obligated Group Agent, by an Obligated Group Agent Request, shall promptly appoint a successor Trustee acceptable to each Credit Enhancer. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Obligated Group Agent and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Obligated Group Agent. If no successor Trustee shall have been so appointed by the Obligated Group Agent or the Holders of Securities and accepted appointment in the manner provided in the Master Indenture, any Holder of Securities who has been a bona fide Holder of a Security for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

The Obligated Group Agent shall, at the expense of it and the other Members of the Obligated Group, give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first class mail, postage prepaid, to the Holders of Securities at their addresses as shown in the Security Register. Each notice shall include the name and address of the Designated Corporate Trust Office of the successor Trustee.

## Supplements

*Supplemental Indentures Without Consent of Holders of Securities.* Without the consent of the Holders of any Securities, the Obligated Group Members, when authorized by a Board Resolution of each such Member or of the Obligated Group Agent, and the Trustee at any time may enter into or consent to one or more Supplemental Indentures, subject to certain restrictions set forth in the Master Indenture, for any of the following purposes:

(i) to authorize a series of Additional Securities, or to reflect the admission or withdrawal of an Obligated Group Member;

(ii) to evidence the succession of another Person to an Obligated Group Member, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Obligated Group Member as permitted by the Master Indenture;

(iii) to add to the covenants of the Obligated Group for the benefit of the Holders of Securities or any Credit Enhancer, or to surrender any right or power in the Master Indenture conferred upon the Obligated Group;

(iv) to cure any ambiguity or to correct or supplement any provision in the Master Indenture or any supplemental indenture thereto which may be inconsistent with any other provision in the Master Indenture or any supplemental indenture thereto, or to make any other provisions with respect to matters or questions arising under the Master Indenture which shall not be inconsistent with the Master Indenture, provided such action shall not, in the opinion of the Trustee, adversely affect the interests of the Holders of Securities;

(v) to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Obligated Group Members undertake such covenants, conditions or restrictions additional to those contained in the Master Indenture as would be necessary or appropriate so to qualify the Master Indenture; provided, however, that nothing in the Master Indenture contained shall be deemed to authorize inclusion in the Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(vi) in connection with any other change in the Master Indenture which, in the judgment of an Independent Management Consultant, a copy of whose report shall be filed with the Trustee, (a) is in the best interest of the Obligated Group Members and (b) does not materially adversely affect the Holder of any Security; provided that no such change shall be made if within 30 days of its receipt of such Independent Management Consultant's report, the Trustee shall have obtained a report from another Independent Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (vi) is not satisfied; provided further, that the Trustee is under no duty to retain another such Independent Management Consultant; or

(vii) to make any amendment to any provision of the Master Indenture or to any Supplemental Indenture which is only applicable to Securities issued thereafter or which will not apply so long as any Security then Outstanding remains Outstanding.

*Supplemental Indentures With Consent of Holders of Securities.* With the consent of the Holders (or, in the case of any Securities that are subject to a Credit Facility, or that are pledged to secure the repayment of other indebtedness that is subject to a Credit Facility, the Credit Enhancer with respect to such Securities) of not less than a majority in principal amount of the Outstanding Securities, by Act of said Holders (and such Credit Enhancer) delivered to the Obligated Group Agent and the Trustee, the Obligated Group Members, when authorized by a Board Resolution of each such Member or a resolution of the Obligated Group Agent, and the Trustee may enter into or consent to a Supplemental Indenture (subject to provisions of the Master Indenture) for the purpose of adding



any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of modifying in any manner the rights of the Holders of the Securities under the Master Indenture; provided, however, that no such Supplemental Indenture shall, without the consent of the Holder of each Outstanding Security affected thereby:

(i) change the Stated Maturity of the principal of, or any installment of interest on, any Securities or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Securities or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

(ii) reduce the percentage in principal amount of the Outstanding Securities, the consent of whose Holders is required for any such Supplemental Indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of the Master Indenture or certain defaults hereunder and their consequences) provided for in the Master Indenture, or

(iii) modify any of the provisions described in certain sections of the Master Indenture, except to increase any such percentage or to provide that certain other provisions of the Master Indenture cannot be modified or waived without the consent of the Holder of each Security affected thereby, or

(iv) permit the preference or priority of any Security or Securities over any other Securities then Outstanding, or

(v) modify the right of the Holders of not less than 25% of the aggregate principal amount of the Securities Outstanding of any series to declare the principal amount of all Securities Outstanding to be due and payable.

It shall not be necessary for any Act of Holders (or Credit Enhancer) of Securities under the Master Indenture to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such Act of Holders (or Credit Enhancer) of Securities shall approve the substance thereof.

### **Satisfaction and Discharge of Master Indenture**

*Satisfaction and Discharge of Master Indenture.* If at any time the Members of the Obligated Group shall have paid or caused to be paid the principal of (and premium, if any) and interest on all the Securities Outstanding under the Master Indenture, as and when the same shall have become due and payable, and if the Obligated Group shall also pay or provide for the payment of all other sums payable hereunder or payable to any Credit Enhancer in relation to the Securities by the Obligated Group and shall have paid all of the Trustee's fees and expenses pursuant to the Master Indenture, then the Master Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced or apparently destroyed, lost or stolen Securities, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Obligated Group to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Trustee hereunder, and (v) the rights of the Holders as beneficiaries hereof with respect to the Property so deposited with the Trustee payable to all or any of them) and the Trustee, on Obligated Group Agent Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of the Master Indenture have been fulfilled and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

Notwithstanding the satisfaction and discharge of the Master Indenture, certain obligations of the Obligated Group Members to the Trustee under the Master Indenture shall survive.

## THE TRUST INDENTURE

The following is a summary of certain provisions contained in the Trust Indenture pursuant to which the Bonds are issued. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Trust Indenture for a complete recital of the terms thereof.

### Definitions – Indenture

The following terms have the following meaning when used in this summary of the Trust Indenture contained in this Appendix unless the context clearly requires otherwise.

*“Authorized Denominations”* means \$5,000 or any integral multiple thereof.

*“Board Resolution”* of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

*“Bond Counsel”* means an attorney or firm of attorneys nationally recognized as experienced in the field of bonds of governmental issuers.

*“Bond Documents”* means the Financing Documents, the Bonds and all other agreements, documents and instruments ever delivered pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

*“Bond Obligations”* means all Debt Service and any other amounts that may be owed by the Corporation to, or on behalf of, the Issuer or the Trustee under the Bond Documents.

*“Bondholder”* or *“Holder”* means a Person in whose name a Bond is registered in the Bond Register.

*“Bonds”* means the Issuer’s Hospital Revenue Bonds (Cook Children’s Medical Center) Series 2020.

*“Closing Date”* means, with respect to the Bonds, the date on which the Bonds are first authenticated and delivered to the purchasers thereof against payment therefor.

*“Consent,” “Order,”* and *“Request”* of any specified Person mean, respectively, a written consent, order, or request signed in the name of such Person by the chairman of its Governing Body, its president, any of its vice presidents, or any other executive officer of such Person as designated by such Person to the Trustee, and delivered to the Trustee. Designations as to other executive officers shall remain effective until the Trustee is notified to the contrary.

*“Corporation”* means Cook Children’s Medical Center, a Texas nonprofit corporation, and its successors and assigns.

*“Debt Service”* means the principal of, premium, if any, and interest due on the Bonds, whether upon Stated Maturity thereof, call for redemption, or declaration of acceleration.

*“Defeasance Obligations”* mean obligations described in clauses (a), (b), and (g) of the definition of Eligible Securities.

*“Designated Corporate Trust Office”* means any office of the Trustee the established by the Trustee as its Designated Corporate Trust Office in writing to the Corporation.

“*Eligible Securities*” means the following obligations or securities, maturing or redeemable at the option of the Trustee, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from any fund in accordance with the terms hereof:

(a) direct obligations of the United States of America or obligations to the full and prompt payment of which the full faith and credit of the United States of America is irrevocably pledged or evidences of direct ownership of interests in future interest and principal payments on such obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor on such obligations, and which underlying obligations are not available to satisfy any claim of the custodian or any Person claiming through the custodian or to whom the custodian may be obligated.

(b) obligations of, or obligations guaranteed as to principal and interest by the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including, but not limited to, obligations issued by:

1. U.S. Export-Import Bank (Eximbank)
2. FmHA
3. Federal Financing Bank
4. Federal Housing Administration Debentures (“*FHA*”)
5. General Services Administration (Participation Certificates)
6. Government National Mortgage Association (“*GNMA*” or “*Ginnie Mae*”)
7. U.S. Maritime Administration
8. HUD.

(c) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

1. Senior debt obligations issued by the Federal Home Loan Bank System
2. REFCORP
3. Federal Home Loan Mortgage Corporation (“*FHLMC*” or “*Freddie Mac*”)
4. Mortgage backed securities and senior debt obligations of the Federal National Mortgage Association (“*FNMA*” or “*Fannie Mae*”)
5. Farm Credit System (consolidated system wide bonds and notes)
6. Senior debt obligations of other Government Sponsored Enterprises.

(d) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of “P-1” or “A3,” or better, by Moody’s, and “A-1” or “A” by S&P, and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(e) commercial paper which is rated at the time of purchase in the single highest classification, “P-1” and “A-1,” or better, by each Rating Service and which matures not more than 270 calendar days after the date of purchase.

(f) investments in a money market fund registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and rated “AAAm” or “AAAm-G” or better by S&P, or “Aaa,” “Aa1,” or “Aa2” by Moody’s, including any money market funds managed by the Trustee or its affiliates and with respect to which the Trustee or such affiliates receives compensation.

(g) pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

1. which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of each Rating Service; and

2. (A) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause b above, which escrow may be applied only to the payment of such principal of an interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (B) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(h) municipal obligations rated “Aaa/AAA” or general obligations of states of the United States with a rating of “A2/A” or higher by each Rating Service at the time of purchase.

(i) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(j) investment agreements or guaranteed investment contracts with any Person the senior unsecured long-term debt obligations of which are rated, at the time of purchase, in one of the three highest rating categories (determined without regard to subcategories) by each Rating Service.

“*Enabling Act*” means the Cultural Education Facilities Finance Corporation Act, Chapter 337, Texas Local Government Code, as amended from time to time.

“*Event of Default*” has the meaning described under “THE TRUST INDENTURE – Remedies of the Trustee and Holders of Bonds in Event of Default - Events of Default.”

“*Financing Documents*” means the Trust Indenture, any supplemental indenture thereto, the Note, the Master Indenture, and the Loan Agreement.

“*Governing Body*” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the Person or body which pursuant to law or the Organizational Documents of such Person or body is vested with powers similar to those vested in a board of trustees or a board of directors. ““*Independent*” when used with respect to any specified Person means such a Person who (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in the Corporation or in any other obligor upon the Note or in any Affiliate of the Corporation or of such other obligor, and (3) is not connected with the Corporation or such other obligor or with any Affiliate of the Corporation or of such other obligor as an officer, employee, promoter, underwriter, trustee, partner, director, or person performing similar functions. Whenever it is in the Trust Indenture or in the Loan Agreement provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order of the Person making such appointment and approved by the Trustee in the exercise of reasonable care, and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning of the Trust Indenture.

“*Interest Payment Date*” means the Stated Maturity of an installment of interest on the Bonds, and with respect to the Bonds, each June 1st and December 1st, commencing June 1, 2020.

“*Issuer*” means Tarrant County Cultural Education Facilities Finance Corporation, a Texas nonprofit corporation organized under the Enabling Act.

“*Loan Agreement*” means the Loan Agreement, dated as of February 1, 2020, between the Issuer and the Corporation as it may be amended from time to time.

*“Management Consultant”* means a nationally recognized firm of Independent professional management consultants that is appointed by a Corporation Order which Management Consultant is (i) knowledgeable in the operation and fiscal management of healthcare facilities and (ii) has a favorable reputation for skill and experience in the field of healthcare facility management consultation.

*“Master Indenture”* means the Second Amended and Restated Master Trust Indenture, amended, restated and dated as of February 1, 2020, and effective as of the Closing Date, among the W.I. Cook Foundation, Inc., individually and as Obligated Group Agent, Cook Children’s Health Care System, Cook Children’s Medical Center, Cook Children’s Physician Network, such other Persons as from time to time are members of the Obligated Group and the Trustee, as supplemented, amended, modified, restated or replaced from time to time.

*“Maturity”* when used with respect to the Bonds means the date on which the principal of the Bond becomes due and payable as provided in the Trust Indenture, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

*“Moody’s”* means Moody’s Investors Service, Inc., or any successor thereto maintaining a rating on the Bonds.

*“Note”* means the note of the Corporation evidencing a loan made pursuant to the Loan Agreement.

*“Obligated Group”* has the meaning assigned to such term in the Master Indenture.

*“Officer’s Certificate”* of any specified Person means a certificate signed by the chairman of its Governing Body, its president, any of its vice presidents, another executive officer or such other officer of such Person, and delivered to the Trustee.

*“Opinion of Bond Counsel”* means an Opinion of Counsel rendered by Bond Counsel addressed to the Issuer, the Corporation, and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Bond Documents and by the laws of the State and that all conditions precedent under the relevant documents have been fulfilled and that such proposed action will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the affected Bonds or the validity or enforceability of the affected Bonds.

*“Opinion of Counsel”* means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Financing Document, and shall be reasonably acceptable to the Trustee.

*“Organizational Documents”* of any corporation means the certificate of formation, articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

*“Outstanding”* when used with respect to the Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under the Trust Indenture, except:

- (i) bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (ii) bonds for whose payment or redemption money (or Defeasance Obligations to the extent permitted by the Trust Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Holders of such Bonds pursuant to the Trust Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Trust Indenture or irrevocable provision therefor satisfactory to the Trustee has been made; and
- (iii) bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to the Trust Indenture;

provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver under the Trust Indenture, Bonds owned by the Corporation or any other obligor upon the Bonds or the Note or any Affiliate of the Corporation or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee actually knows to be so owned shall be so disregarded. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Corporation or any other obligor upon the Bonds or the Note or any Affiliate of the Corporation or such other obligor.

*"Paying Agent"* means initially the Trustee, and any other Person authorized by Corporation Order to pay Debt Service on behalf of the Issuer.

*"Person"* means any individual, limited liability company, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

*"Place of Payment"* for any series of Bonds means a city or any political subdivision thereof designated as such in the Bonds.

*"Property"* means any and all right, title and interest of a member of the Obligated Group in and to any and all property, whether real or personal, tangible or intangible, and wherever situated, including cash.

*"Rating Service"* means each nationally recognized statistical rating organization, within the meaning of the rules of the United States Securities and Exchange Commission, which at the time has a credit rating assigned to the Bonds at the request of the Corporation.

*"Regular Record Date"* means, with respect to the payment of interest on the Bonds on any Interest Payment Date therefor, the close of business on the 15<sup>th</sup> day (whether or not a Business Day) of the calendar month next preceding such Interest Payment Date.

*"Regulations"* means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

*"Responsible Officer"* when used with respect to the Trustee means the officer in the corporate trust department of the Trustee (or any comparable business unit of any successor Trustee) having direct responsibility for the administration of the Trust Indenture.

*"S&P"* means S&P Global Ratings, a division of S&P Global Inc., a corporation Standard & Poor's Ratings Services, a business of Standard & Poor's Financial Services LLC, a limited liability company organized and existing under the laws of the State of New York or any successor thereto maintaining a rating on the Bonds.

*"Security"* has the meaning assigned to such term in the Master Indenture.

*"Sponsoring Entity"* means Tarrant County, Texas.

*"State"* means the State of Texas.

*"Stated Maturity"* when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

*"Trust Estate"* means (i) all right, title, and interest of the Issuer in and to the Loan Agreement, including the loan payments, the Note by which the rights to such loan payments are evidenced, any and all security heretofore

or hereafter granted or held for the payment thereof and the present and continuing right to bring actions and proceedings under the Loan Agreement or on the Note or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Corporation pursuant to the Loan Agreement; (ii) all right, title, and interest of the Issuer in and to all money and investments held for the credit of the funds and accounts (except the Rebate Fund) established under the Trust Indenture; and (iii) any and all property that may, from time to time, by delivery or by writing of any kind, be subjected to the lien and security interest of the Trust Indenture by the Issuer or by anyone on its behalf (and the Trustee is hereby authorized to receive the same at any time as additional security under the Trust Indenture), which subjection to the lien and security interest hereof of any such property as additional security may be made subject to any reservations, limitations, or conditions which shall be set forth in a written instrument executed by the Issuer or the Person so acting on its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof.

“*Trust Indenture*” means that certain Trust Indenture, dated as of February 1, 2020, between the Issuer and the Trustee.

“*Trustee*” means The Bank of New York Mellon Trust Company, National Association, and its successors and assigns, as trustee under the Trust Indenture.

### **Establishment of Funds**

The Trust Indenture establishes with the Trustee the Debt Service Fund, the Rebate Fund and the Proceeds Fund. The Issuer reserves the right, at the written request and expense of the Corporation, to establish additional funds from time to time and the Trustee may establish within any fund or account separate accounts or subaccounts as the Trustee may deem necessary or desirable.

*Debt Service Fund.* The Trustee is required to deposit to the Debt Service Fund upon receipt (i) accrued interest from the sale of the Bonds, (ii) any amounts paid by the Corporation pursuant to the Loan Agreement or on the Note or any guaranty thereof for such purpose, and (iii) any other amounts delivered to the Trustee for deposit thereto. The Trustee shall, at each Maturity of the Bonds and on each Interest Payment Date, apply the money in the Debt Service Fund to set aside or deposit in trust with the Paying Agent sufficient money to pay Debt Service then coming due.

*Proceeds Fund.* The Trustee is required to deposit to the Proceeds Fund all amounts paid to the Trustee by the Issuer or the Corporation specifically for deposit to the credit of the Proceeds Fund and the proceeds of the Bonds to the extent specified by Issuer Order, which Issuer Order may establish a separate account in the Proceeds Fund.

*Rebate Fund.* Upon Corporation Request, the Trustee is required to deposit to the Rebate Fund each amount delivered to the Trustee by the Corporation for deposit thereto and each amount directed by the Corporation to be transferred thereto. The Trustee must preserve all statements, forms, and calculations received from the Corporation pursuant to the Loan Agreement and all records of transactions in the Rebate Fund until three years after the retirement of all of the Bonds.

### **Investment of Funds**

Pending disbursement of the amounts on deposit in any fund, the Trustee shall promptly invest and reinvest such amounts in the Eligible Securities specified in any Corporation Order, provided, that such investments qualify as Eligible Securities subject to the limitations set forth in the Trust Indenture and applicable law, or in the absence of such Corporation Order, while The Bank of New York Mellon Trust Company, National Association, is Trustee, in a money market fund or similar investment that is an Eligible Security, including funds managed by the Trustee, that purchases and holds exclusively obligations of the United States of America or obligations of its agencies which are unconditionally guaranteed as to payment of principal and interest by the United States of America and which, in either case, have a term of not more than 30 days. The Trustee is authorized to implement its automated cash investment system to assure the cash on hand is invested, and to charge its normal cash management fees, which

may be deducted from income earned on investments. The Trustee may purchase from or sell to itself or an affiliate, as principal or agent, securities authorized in the Trust Indenture. The Trustee shall not be responsible for any loss suffered in connection with any investment of funds made by it in accordance with the Trust Indenture. Although the Issuer and the Corporation each recognize that it may obtain a broker confirmation or written statement containing comparable information at no additional cost, the Issuer and Corporation agree that confirmation of investments in Eligible Securities is not required to be issued by the Trustee in any month in which a monthly statement is rendered. No monthly statement need be rendered for any fund or account if no activity occurred in such fund or account during such month.

Unless otherwise provided by supplemental indenture, income and profits on investments in any fund shall be credited to that respective fund. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department or through an Affiliate. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund to be redeemed or sold and converted into cash to the credit of that fund. The Trustee may invest in transactions for which the Trustee or any Affiliate thereof receives compensation.

The Corporation by its execution of the Loan Agreement covenants to restrict the investment of money in the funds created under the Trust Indenture in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations, and the Trustee hereby agrees to comply with any Corporation Order with respect to the investment of money in the funds created under the Trust Indenture.

The value of the Eligible Securities held in any fund shall be determined as follows:

- (1) For the purpose of determining the amount in any fund, all Eligible Securities credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers; and
- (2) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest thereon.

### **Covenants of the Issuer**

*Payment of Debt Service; Limited Obligations.* The Issuer will duly and punctually pay Debt Service in accordance with the terms of the Bonds and the Trust Indenture; provided, however, that the Bonds and the other obligations of the Issuer provided for in the Trust Indenture shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Bonds and the other expense reimbursement obligations of the Issuer provided for in the Trust Indenture shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

If the specified date for any such payment is a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

*Limitations on Liens, Debts and Disposition of Assets.* Except as permitted or contemplated in the Trust Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by the Trust Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Holders superior to or ranking on parity with the lien created by the Trust Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by the Trust Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer's interest therein or the revenues pledged in the Trust Indenture except in connection with the



issuance of additional Bonds or on a basis subordinate to the liens created by the Trust Indenture; or (iv) knowingly take any other action that will impair the lien of the Trust Indenture on the Trust Estate.

### **Tax Covenants**

The Issuer covenants and agrees that until the final Maturity of the Bonds, based upon the Corporation's covenants in a certain provision of the Loan Agreement, it will not use or direct the use of any money on deposit in any fund or account maintained in connection with the Bonds, whether or not such money was derived from the proceeds of the sale of the Bonds or from any other source, in a manner that would cause the Bonds of any issue to be arbitrage bonds, within the meaning of Section 148 of the Code. In the event the Corporation notifies the Issuer that it is necessary to restrict or limit the yield on the investment of moneys held by the Trustee pursuant to the Trust Indenture, or to use such moneys in any certain manner to avoid the Bonds being considered arbitrage bonds, the Issuer at the written direction and expense of the Corporation shall deliver to the Trustee an Issuer Order containing appropriate instructions, in which event the Trustee shall take such action as instructed to restrict or limit the yield on such investment or to use such moneys in accordance with such Order.

The Issuer shall not use or direct the use of any proceeds of Bonds or any other funds of the Issuer, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, that would result in any of the Bonds being treated other than as an obligation described in Section 103(a) of the Code.

The Issuer will not use or direct the use of any portion of the proceeds of the Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a Person who is not an Exempt Person.

The Issuer will not take any action or omit to take any action, which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of Bond Counsel and at the expense of the Corporation, as may rescind or otherwise negate such action or omission.

The Issuer will not take any action that would result in all or any portion of the Bonds being treated as federally guaranteed within the meaning of Section 149(b)(2) of the Code.

For purposes of the Trust Indenture, the Issuer's compliance shall be based solely on acts or omissions by the Issuer, and no acts, omissions or directions of the Corporation, the Trustee or any other Persons shall be attributable to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon an Opinion of Bond Counsel to the effect that any action by the Issuer or reliance upon any interpretation of the Code or the Regulations contained in such opinion will not cause interest on the Bonds to be includible in gross income for federal income tax purposes under existing law.

### **Remedies of the Trustee and Holders of Bonds in Event of Default**

*Events of Default.* "Event of Default," whenever used in the Trust Indenture means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

- (i) default in the payment of the principal of or premium, if any, on any Bond when the same shall become due and payable, whether at the Stated Maturity thereof, or upon proceedings for redemption or as required by the sinking fund provisions of the Trust Indenture or otherwise;

(ii) default in the payment of any installment of interest on any Bond when the same shall become due and payable;

(iii) an Event of Default has occurred and is continuing under the Master Indenture; or

(iv) default in the performance, or breach, of any covenant or agreement on the part of the Issuer or the Corporation contained in the Trust Indenture or the Loan Agreement (other than a covenant or agreement whose performance or observance is elsewhere under this subheading specifically dealt with) and continuance of such default or breach for a period of 30 days after there has been given, by registered or certified mail, to the Issuer and the Corporation by the Trustee, or to the Issuer, the Corporation and the Trustee by the Holders of at least 25% in principal amount of Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Trust Indenture; provided that if such default can be cured by the Issuer or the Corporation but cannot be cured within the 30-day curative period described above, then, unless otherwise provided in any supplemental indenture, it shall not constitute an Event of Default if corrective action is instituted by the Issuer or the Corporation within such 30-day period and diligently pursued until the default is corrected.

*Remedies. Acceleration of Maturity in Certain Cases; Rescission and Annulment.* If an Event of Default other than an Event of Default described in clause (iii) under "THE TRUST INDENTURE - Remedies of the Trustee and Holders of Bonds in Event of Default - Events of Default" above occurs and is continuing, the Trustee or the Holders of not less than 25% in principal amount of the Bonds Outstanding, may declare the principal of all of the Bonds to be due and payable immediately. Trustee shall provide each Rating Service notice of any declaration made under the Trust Indenture.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as provided in the Trust Indenture, the Holders of a majority in principal amount of the Bonds Outstanding, by written notice to the Issuer and the Trustee, in the case of any acceleration of maturity of the Bonds, or by written notice to the Corporation and the Trustee to the extent and in the manner permitted by the Master Indenture in the case of any acceleration of maturity of the Note, may rescind and annul such declaration and its consequences if (i) there has been paid or deposited with the Trustee a sum sufficient to pay (a) all overdue installments of interest on all Bonds, (b) the principal of (and premium, if any, on) any Bonds which has become due other than by declaration of acceleration and interest thereon at the rate borne by the Bonds, and (c) all sums paid or advanced by the Trustee under the Trust Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and (ii) all Events of Default, other than the nonpayment of the principal of Bonds which have become due solely by such acceleration, have been cured or waived as provided in the Trust Indenture. No such rescission shall affect any subsequent default or impair any consequent right.

The Issuer covenants that if default is made in the payment of any installment of interest on any Bond or default is made in the payment of the principal of (or premium, if any, on) any Bond when such principal becomes due and payable, the Issuer will pay to the Trustee (but solely from the Trust Estate and the revenues pledged under the Trust Indenture to such payment), to the Trustee, for the benefit of the Holders of such Bonds, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest (at the interest rate borne by such Bonds) upon the overdue principal (and premium, if any); and, in addition thereto, such further amount (but in the case of the Issuer solely from the Trust Estate and the revenues pledged by the Trust Indenture to such payment) as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts on demand, the Trustee may institute and prosecute a judicial proceeding for the collection of amounts due and unpaid by the Issuer, and may enforce a judgment or final decree against the Issuer or any other obligor upon the Bonds and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property constituting the Trust Estate of the Issuer or any other Obligor upon the Bonds, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may proceed to protect and enforce its rights and the rights of the Holders of Bonds by judicial proceedings, whether for the specific enforcement of any covenant or agreement in the Trust Indenture or in aid of the exercise of any power granted therein, or to enforce any other proper remedy.

### **Application of Money Collected**

Any money collected by the Trustee or on deposit in the Debt Service Fund or the Proceeds Fund or any fund created by supplemental indenture (subject to any limitations therein provided) during the continuance of any Event of Default described in paragraphs (i), (ii), or (iii) under “THE TRUST INDENTURE - Remedies of the Trustee and Holders of Bonds in Event of Default- Events of Default” will be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution for the payment of Debt Service on the Bonds, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under the Trust Indenture;

Second: To the payment of the amounts then due and unpaid upon the Bonds for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any) and interest, respectively; and

Third: To the Corporation, any remaining amounts of money so collected.

### **Limitation on Suits and Control of Remedies**

No Holder of any Bond has the right to institute any proceeding, judicial or otherwise, with respect to the Trust Indenture, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Indenture, unless (i) such Holder has previously given written notice to the Trustee of a continuing Event of Default; (ii) the Holders of not less than 25% in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Indenture; (iii) such Holder or Holders have provided to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (iv) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Bonds; it being understood and intended that no one or more Holders of Bonds shall have any right to affect, disturb or prejudice the rights of any other Holders of Bonds, or to obtain or to seek to obtain priority or preference over any other Holders, to take any action that would affect the validity of the lien of the Trust Indenture on the Trust Estate, or to enforce any right under the Trust Indenture, except in the manner provided in the Trust Indenture and for the equal and ratable benefit of all the Holders.

### **Control by Holders of Bonds**

Subject to certain limitations set forth in the Trust Indenture, the Holders of a majority in principal amount of the Outstanding Bonds shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that such direction shall not be in conflict with any rule of law or with the Trust Indenture, and the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

### **Concerning the Trustee**

The Trust Indenture contains various limitations on the liability of the Trustee. The Trustee is not liable for any error of judgment made in good faith by a Responsible Officer, unless it has been proved that the Trustee was negligent in ascertaining the pertinent facts. In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or

opinions furnished to the Trustee and conforming to the requirements of the Trust Indenture; but in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the specific requirements of the Trust Indenture. The Trustee is not liable for any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding relating to the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Trust Indenture. No provision of the Trust Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Indenture or in the exercise of any of its rights or powers.

### **Trustee May Own Bonds**

The Trustee or other agent of the Issuer, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not the Trustee or such other agent.

### **Moneys to be Held in Trust**

All moneys received by the Trustee are required, until used or applied as provided in the Trust Indenture, to be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received other than such interest as it expressly agrees to pay.

### **Resignation and Removal of the Trustee**

No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee in accordance with the terms of the Trust Indenture.

The Trustee may resign at any time upon written notice to the Issuer and the Corporation.

The Trustee may be removed at any time by (i) Corporation Order, except during the occurrence and continuance of an Event of Default, delivered to the Trustee and the Issuer at least 60 days prior to the proposed effective date of such removal, or (ii) act of the Holders of a majority in principal amount of the Outstanding Bonds delivered to the Trustee and the Issuer.

If the Trustee becomes ineligible under the Trust Indenture and fails to resign after written request by the Issuer, the Corporation or by any Holder of Bonds, or becomes incapable of acting or is adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property is appointed or any public officer takes charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, the Issuer, by Issuer Order, may remove the Trustee, or any Holder of Bonds who has been a bona fide Holder of a Bond for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

If the Trustee resigns, is removed or becomes incapable of acting, or if a vacancy occurs in the office of the Trustee for any cause, the Issuer is required to promptly notify each Rating Service and appoint a successor Trustee. If an instrument of acceptance by a successor Trustee is not delivered to the Trustee within 30 days after the giving of such notice of resignation, such removal, or such incapability, the existing Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee is appointed by Act of the Holders of a majority in principal amount of the Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer. If no successor Trustee shall have been so appointed by the Issuer or the Holders of Bonds and accepted appointment in the manner provided in the Trust Indenture, any Holder of Bonds who has been a bona fide Holder of a Bond for at least six months may, on behalf of

himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

No resignation or removal of the Trustee will become effective until the appointment of and acceptance by the successor Trustee.

### **Supplements and Amendments**

*Without Consent of Holders of Bonds.* Without the consent of the Holders of any Bonds, but with consent of the Corporation, the Issuer, and the Trustee at any time may enter into or consent to one or more indentures supplement to the Trust Indenture, subject to certain provisions of the Trust Indenture, the Loan Agreement or consents or supplements to the Master Indenture, for any of the following purposes:

(i) to evidence the succession of another Person to the Issuer or the Corporation, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by the Trust Indenture or of the Corporation as permitted by the Loan Agreement;

(ii) to add to the covenants of the Issuer or the Corporation for the benefit of the Holders of Bonds, to surrender any right or power in the Trust Indenture conferred upon the Issuer or the Corporation;

(iii) to cure any ambiguity or to correct or supplement any provision of the Trust Indenture or supplement which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Trust Indenture or the Loan Agreement which shall not be inconsistent with the Trust Indenture or the Loan Agreement, provided such action shall not adversely affect the interests of the Holders of Bonds;

(iv) to modify or supplement the Trust Indenture in such manner as may be necessary or appropriate to qualify the Trust Indenture under the Trust Indenture Act of 1939, or similar federal or state statute or regulation; including provisions whereby the Trustee accepts such powers, duties, conditions and restrictions under the Trust Indenture and the Issuer or the Corporation undertakes such covenants, conditions or restrictions additional to those contained in the Trust Indenture as would be necessary or appropriate so to qualify the Trust Indenture; provided, however, that nothing contained in the Trust Indenture shall be deemed to authorize inclusion in the Trust Indenture or in any supplemental indenture, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute subsequently in effect;

(v) in connection with any change which, in the judgment of a Management Consultant, (a) is in the best interest of the Corporation and (b) does not materially adversely affect the Holder of any Bond; provided that no such change shall be made if within 30 days of its receipt of such Management Consultant's report, the Trustee shall have obtained a report from another Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (vi) is not satisfied; provided further, that the Trustee shall be under no duty to retain another such Management Consultant; and

(vi) To make any amendment to any provision of the Trust Indenture or to any supplemental indenture that is only applicable to Bonds after a purchase of bonds, or that will not apply so long as any Bond then Outstanding remains Outstanding.

*With Consent of Holders of Bonds.* With the consent of the Holders of not less than a majority in principal amount of the Outstanding Bonds, by Act of said Holders delivered to the Issuer and the Trustee, and upon Consent of the Corporation, the Issuer, when authorized by a Board Resolution, and the Trustee may enter into or consent to an indenture or indentures supplemental to the Trust Indenture (subject to the Trust Indenture) or amendments to the Loan Agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Trust Indenture or the Loan Agreement or of modifying in any manner the rights of the Holders of

the Bonds under the Trust Indenture or the Loan Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of the Holder of each Outstanding Bond affected thereby,

(i) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of the Trust Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

(ii) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of the Trust Indenture or certain defaults thereunder and their consequences) provided for in the Trust Indenture, or

(iii) modify any of the provisions under this subheading or certain other provisions in the Trust Indenture, except to increase any such percentage or to provide that certain other provisions of the Trust Indenture cannot be modified or waived without the consent of the Holder of each Bond affected thereby.

### **Satisfaction and Discharge of Indenture**

If at any time the Issuer has paid or caused to be paid the principal of (and premium, if any) and interest on all the Bonds Outstanding under the Trust Indenture, as and when the same shall have become due and payable, and if the Issuer shall also pay or provide for the payment of all other sums payable under the Trust Indenture by the Issuer, and the Corporation shall have paid all of the Trustee's fees and expenses pursuant the Loan Agreement, then the Trust Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, or apparently destroyed, lost or stolen Bonds, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Issuer to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Trustee under the Trust Indenture and (v) the rights of the Holders as beneficiaries under the Trust Indenture with respect to the property so deposited with the Trustee payable to all or any of them) and the Trustee, on Corporation Order accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of the Trust Indenture have been fulfilled and at the cost and expense of the Corporation, shall execute proper instruments acknowledging satisfaction and discharge of the Trust Indenture.

Notwithstanding the satisfaction and discharge of the Trust Indenture, if funds have been deposited with the Trustee relating to payment or holding for payment of the Bonds, certain obligations of the Trustee will survive.

*Bonds Deemed Paid.* Bonds of any series shall be deemed to have been paid if (i) in case said Bonds are to be redeemed on any date prior to their Stated Maturity, the Corporation by Corporation Request has given to the Trustee instructions to give notice of redemption of such Bonds, in the manner required by the Trust Indenture, on said redemption date; (ii) there has been deposited with the Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Trustee accompanied by a report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Bonds on and prior to the Maturity thereof; (iii) in the event said Bonds are not by their terms subject to redemption within the next 45 days, the Corporation by Corporation Request has given the Trustee irrevocable instructions to give notice to the Holders of such Bonds that the deposit required by clause (ii) in this subsection has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this provision and stating such Maturity Date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Bonds; and (iv) there is delivered to the Trustee an Opinion of Bond Counsel.

*Application of Trust Money.* The Defeasance Obligations and money deposited with the Trustee pursuant to certain provisions of the Trust Indenture and principal or interest payments on any such Defeasance Obligations

shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and the Trust Indenture, to the payment, either directly or through any paying agent as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in clause (ii) under "THE TRUST INDENTURE - Satisfaction and Discharge of Indenture; Unclaimed Money- Bonds Deemed Paid," any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, are required, upon Corporation Request, be reinvested to the maximum extent possible in other Defeasance Obligations or disposed of as requested by the Corporation. For purposes of any calculation required by "THE TRUST INDENTURE Satisfaction and Discharge of Indenture; Unclaimed Money," any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on that such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity

## **THE LOAN AGREEMENT**

The proceeds of the Bonds are being loaned by the Issuer to the Corporation pursuant to the terms of that loan agreement between the Issuer and the Corporation dated as of February 1, 2020, and as it may be amended from time to time (the “*Loan Agreement*”). The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full Loan Agreement.

### **General**

The Loan Agreement is an agreement between the Issuer and the Corporation whereby the Issuer agrees to lend the proceeds of the Bonds to the Corporation and the Corporation agrees to make loan repayments to the Trustee.

### **Acquisition and Construction of the Project**

The Corporation agrees to utilize the amounts in the Proceeds Fund to pay Project Costs and to operate the facilities financed or refinanced with the proceeds of the Bonds as health facilities as defined in the Health Act in furtherance of the public purposes of the Enabling Act.

### **Loan Payments**

The Corporation will execute and deliver to the Issuer, to evidence its obligation to repay the loan of the proceeds of the Bonds to the Corporation by the Issuer, the Note. The Corporation is required to make loan payments in accordance with the Trust Indenture and the Loan Agreement directly to the Trustee for deposit in the Debt Service Fund (1) not less than one business day preceding each date that Debt Service is due on Outstanding Bonds (A) the amount of interest on the Outstanding Bonds which is due on such date and (B) the amount of any installment of principal of, or redemption price on, Outstanding Bonds which is due on such date, and (2) on the date on which Debt Service on any Bond is payable (including pursuant to a declaration of acceleration), an amount sufficient to cause the amount available in the Debt Service Fund for payment of Debt Service to equal the amount of Debt Service due with respect to the Bonds on such date.

### **Nature of Obligations of the Corporation**

The Corporation agrees that its obligations to make payments under the Loan Agreement are absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Corporation might otherwise have against any Person, and except in connection with a discharge of the Trust Indenture, the Corporation will perform and observe all its payment obligations and covenants, representations and warranties thereunder without suspension and will not terminate the Bond Documents for any cause. The Holders of the Bonds are entitled to rely upon the agreements and covenants in the Loan Agreement regardless of the validity or enforceability of the remainder of the Loan Agreement or any other bond document or agreement.

### **Fees and Expenses**

The Corporation agrees to pay promptly upon demand therefor all costs paid, incurred or charged by the Issuer in connection with the Bonds, including without limitation (i) all amounts payable to the Trustee pursuant to the Trust Indenture, (ii) all fees required to be paid to the Issuer with respect to the Bonds, (iii) all out-of-pocket expenses and costs of issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the issuance of the Bonds and the administration of the Bond Documents, and (iv) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights of remedies or the performance of its duties under the Bond Documents.



## SUMMARY OF THE SPRINGING AMENDMENTS

In connection with the issuance of the Series 2020 Bonds, the Combined Group has approved certain amendments (the “*Springing Amendments*”) to the Master Indenture contained in the First Supplement to Second Amended and Restated Master Trust Indenture, dated February 1, 2020 (the “*First Supplement*”). By the purchase of the Series 2020 Bonds on the date of issuance, each holder of the Series 2020 Bonds will be deemed to have consented to the amendments to the Master Indenture contained in the First Supplement.

The Springing Amendments shall be effective upon receipt of the consent of the majority in principal amount of the Outstanding Securities under the Master Indenture and upon receipt by the Trustee of: (i) a certification from the Foundation that the required consents of the Holders of the Securities (or the applicable Credit Enhancer(s)) have been obtained and that all conditions required in the Master Indenture have been satisfied and (ii) the Opinion of Counsel described in the Master Indenture. Upon the effectiveness of the provisions and modifications to the Master Indenture set forth in the First Supplement, such provisions and modifications shall remain in full force and effect from the date thereof until no Securities are Outstanding under the Master Indenture or the Master Indenture is subsequently modified, amended, restated, or otherwise supplemented pursuant to the terms of the Master Indenture.

The Springing Amendments are set forth below. **Bold and underlined** language constitutes additions to the Master Indenture and ~~**bold and struck through**~~ language constitutes deletions from the Master Indenture. .

### Modification of Section 101 of the Master Indenture

*There is hereby added the following definition to Section 101 of the Master Indenture:*

**“Finance Lease” means any lease of real or personal property that, in accordance with GAAP, is classified as a finance lease under Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases or any successor guidance.**

*The definition of “Annual Debt Service Requirements” is deleted and replaced in its entirety by the following:*

“Annual Debt Service Requirements” of any specified Person means, for any period, the principal of (and premium, if any) and interest and other debt service charges (which include for purposes hereof, any fees or premiums for any letter of credit, surety bond, policy of insurance, bond purchase agreement or any similar credit or liquidity support secured in connection therewith) on all Funded Debt of such Person paid or payable by such Person during such period, and, for such purposes, any one or more of the following rules shall apply at the election of the Obligated Group Agent:

(1) **Refinanced Amounts** - if such Person has refunded or purchased any of its Funded Debt at or prior to its Maturity with the proceeds of other Funded Debt, then the portion of the Funded Debt refunded or purchased shall be excluded from such calculation and the principal of (and premium, if any) and interest on the Funded Debt incurred for such refunding, refinancing or purchase maturing in the period for which the calculation is being made shall be added;

(2) **Prefunded Payments** - principal of (and premium, if any) and interest and other debt service charges on Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest or other debt service charges are paid from funds **irrevocably deposited or set aside in trust for the payment thereof (including without limitation capitalized interest and accrued interest so deposited or set aside in trust or escrowed with the Trustee of another Independent Person)** ~~(or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) deposited with the proper depository in trust for the payment redemption or satisfaction thereof;~~

(3) Contingent Obligations - in the case of any guarantees or other Debt described in clause (3) of the definition of Debt, the principal of (and premium, if any) and interest and other debt service charges on such Debt for such period shall not be included in such calculation unless the Person which guaranteed or is otherwise obligated in respect of such Debt was actually required to make, or transfer funds to enable the obligor to make, any payment in respect of such Debt during such period, in which case the total amount paid by such Person in respect of such guarantee or other obligation in such period shall be included in any computation of the Annual Debt Service Requirements of such Person for such period;

(4) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates;

(5) Hedge Agreements - any amounts paid or received pursuant to a Hedge Agreement by the Person for which Annual Debt Service Requirements are to be calculated during such period shall be treated as additional debt service charges or as a reduction in debt service charges, as appropriate, for purposes of this definition;

(6) Balloon and Demand Debt - If the amount of any Debt that is due, or at the option of the payee could become due or payable in respect of any required purchase of such Debt, in such Fiscal Year (after taking into account the amortization thereof pursuant to any required sinking fund) exceeds 15% of the original amount of such Debt and the Obligated Group Agent, at its option, shall deliver to the Trustee:

~~(A)~~ (A) *Refinancing Certificate*: an Officer's Certificate, dated within 90 days of the date of calculation of such Annual Debt Service Requirements, stating that financing of a stated term (which shall not extend beyond 30 years after such date of calculation), amortization, and interest rate is reasonably attainable to refund or otherwise directly or indirectly to refinance any amount of such Debt, then the principal of and premium, if any, and interest and other debt service charges on the amount of such Debt so certified to be refundable or refinancable shall be excluded from such calculation and the principal of and premium, if any, and interest and other debt service charges on the refunding Debt as so certified which would result from such refunding or refinancing in such Fiscal Year, if incurred on the first day of the Fiscal Year for which Annual Debt Service Requirements are being calculated, shall be added; or

~~(B)~~ (B) *Sinking Fund Retirement*: a Consent of the obligor on such Debt agreeing to retire (and such Debt shall permit the retirement of), or to fund a sinking fund for, the principal of such Debt according to a fixed schedule stated in such Consent ending on or before the Fiscal Year in which such amount is due or could become due or payable in respect of any required purchase of such Debt, then the principal of (and, in the case of retirement, the premium, if any, and interest and other debt service charges on) such Debt shall be computed as if the same were due in accordance with such schedule; provided that this Clause ~~(B)~~ (B) shall apply only to Debt for which the installments of principal previously scheduled have been paid or funded on or before the times required by such schedule; or

(C) Assumed Level Debt Service: an Officer's Certificate, dated within 90 days of the date of calculation of such Annual Debt Service Requirements, projecting the amount of principal and interest payable on such Debt during such Fiscal Year assuming that (i) the principal balance of such Debt will be refinanced on the date of such calculation, (ii) such principal balance will be payable over the Assumed Term from the date of such calculation, (iii) such principal balance will bear interest at the Index Rate from the date of such calculation, and (iv) the interest and other debt service charges on such Debt will be payable in equal annual

installments or other specified amortization sufficient to pay the principal of and interest and other debt service charges over the Assumed Term;

For purposes of this definition, (a) “Assumed Term” means a period of up to 30 years; provided, however, for any Security that has a Stated Maturity more than 30 years from the date of the relevant calculation, then the Assumed Term for such Security shall be the period until the Stated Maturity of such Security, and (b) “Index Rate” means, at the option of the Obligated Group Agent, as to any Debt (1) the “25-Bond Revenue” index rate for 30-year tax-exempt revenue bonds, as published by The Bond Buyer on any date selected by the Obligated Group Agent that is within 60 days prior to the date of any calculation made with respect to the Index Rate, or an index reasonably comparable to the “25-Bond Revenue” index rate for 30-year tax-exempt revenue bonds, such alternative index to be selected by the Obligated Group Agent, (2) the weighted average coupon or, if applicable, arbitrage yield calculated for federal tax purposes of such Debt, as selected by the Obligated Group Agent and as certified by the Obligated Group Agent in such certificate, (3) the interest rate actually incurred during the calculation period, or (4) such other interest rate or interest index as may be certified in writing by an Authorized Officer of the Obligated Group Agent to the Trustee as appropriate to the situation.

(7) Maturing Debt: If any Debt has a Stated Maturity of four years or less and the Obligated Group Agent delivers to the Trustee an Officer’s Certificate, dated within 90 days of the date of calculation of such Annual Debt Service Requirements, stating that (i) the obligor on such Debt intends to redeem any amount of principal of (and premium, if any) and interest and other debt service charges on such Debt with proceeds of other Debt, and (ii) the issuance on or before such Stated Maturity of Debt for such purpose with a stated term (which shall not extend beyond 20 years after such date of calculation), amortization, and interest rate is reasonably attainable, then for purposes of such calculation, the amount of principal of (and premium, if any) and interest and other debt service charges maturing shall be excluded and the principal of (and premium, if any) and interest and other debt service charges on the Debt described in Clause (ii) of this Clause (7), as if issued at the Stated Maturity of the principal so excluded, shall be added-; or

(8) Commercial Paper. The Annual Debt Service Requirements on any Debt constituting commercial paper shall be calculated in accordance with Clause (7) of this definition, provided that the stated term for purposes of Clause (ii) of Clause (7) shall not extend beyond 30 years after such date of calculation.

*The definition of “Debt” is deleted and replaced in its entirety by the following:*

“Debt” of any specified Person means all:

(1) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of property other than goods or services that are acquired in the ordinary course of business of such Person;

(2) ~~Finance Leases; lease obligations of such Person that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;~~

(3) all indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or the acquisition, construction or improvement of property or ~~capitalized lease~~ Finance Lease obligations guaranteed, directly or indirectly, in any manner by such Person, or in effect guaranteed, directly or indirectly, by such Person through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(4) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by such Person whether or not such Person has assumed or become liable for the payment thereof; ~~and~~

For the purpose of computing the “Debt” of any Person, there shall be excluded (a) any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited shall not be included in any computation of the assets of such Person, and the income from any such deposits shall not be included in the calculation of Adjusted Revenues or Available Revenues of such Person, (b) any agreement or undertaking by the Obligated Group to supply funds or to invest in any Affiliate as a condition to the transaction of any business or the exercise of any privilege or license in the ordinary course of business by such Affiliate so long as either (i) such Affiliate does not incur any indebtedness described in clauses (1) or (2) of this definition, or (ii) such agreement or undertaking by its terms does not apply to any such indebtedness, (c) Debt of one Obligated Group Member to another Obligated Group Member, or the guarantee by any Obligated Group Member of Debt of any Obligated Group Member, (d) the value of any Hedge Agreement, and (e) leases and agreements accounted for as operating leases under Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases or any successor guidance—the notional value of any Hedge Agreement; provided, however, if more than one Obligated Group Member shall have incurred or assumed a guarantee of a Person, other than a Obligated Group Member, or if more than one Obligated Group Member shall be obligated to pay any obligation, for purpose of any computations or calculations of Debt, such guarantee or obligation shall be included only one time, and (e) to the extent that a Person has obtained credit or liquidity enhancement or support for Debt, whether by means of a bank bond purchase agreement, letter of credit, revolving credit agreement, surety bond, or otherwise, and the terms and conditions under which such credit or liquidity enhancement or support was obtained required such Person to reimburse the provider of such enhancement or support, such obligation of such Person to reimburse such provider for such amounts shall constitute Debt only when and to the extent such advances are actually made and such obligation to reimburse actually arises.

Provided, however, if more than one Combined Group Member shall have incurred or assumed a guarantee of a Person, other than a Combined Group Member, or if more than one Combined Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations of Debt, such guarantee or obligation shall be included only one time.

*The definition of “Obligated Group Agent” is deleted and replaced in its entirety by the following:*

“Obligated Group Agent” means the Foundation or any successor thereto pursuant to Section 606 hereof.

#### **Modification of Section 102 of the Master Indenture**

*The first paragraph of clause (b) of Section 102 of the Master Indenture is deleted and replaced in its entirety by the following:*

All calculations required to be made hereunder shall be made after elimination of inter-company items. The character or amount of any asset, liability or item of income or expense required to be determined or any consolidation, combination or other accounting computation required to be made for the purposes hereof, shall be determined or made in accordance with generally accepted accounting principles ~~in the United States and on a basis consistent with the financial statements of the Obligated Group Agent for the fiscal year ended September 30, 2013, subject, however, to the following provided, however, where the character or amount of any asset, liability or time of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of the Trust Indenture or of any agreement, document, or certificate executed and delivered in connection with or pursuant to this Indenture, the same shall be done in accordance with generally accepted accounting principles at the time in effect; provided, further, if generally accepted accounting principles requires a certain accounting treatment or calculation that is different from those in effect on September 30, 2020, the accounting treatment in effect~~

on the applicable calculation date shall apply unless the Obligated Group Agent elects to apply certain generally accepted accounting principles requirements that were in effect on September 30, 2020 (which, in either case, shall be specified in calculations provided to the Trustee pursuant to this Indenture):

#### Modification of Section 411(a) of the Master Indenture

*Section 411(a) of the Master Indenture is deleted and replaced in its entirety by the following:*

(a) Funded Debt. Funded Debt, other than Funded Debt otherwise described in this Section, incurred for any purpose if prior to incurrence of such Funded Debt the Trustee receives an Officer's Certificate ~~to the effect that the Historical Debt Service Coverage Ratio of the Combined Group for the Fiscal Year next preceding the date of incurrence of such Debt, was at least 1.15:1.0 (with respect to the Funded Debt of the Combined Group outstanding immediately prior to the incurrence of such Debt), and either: certifying either (i) after giving effect to the incurrence of such Debt, the Combined Group will have a Debt to Capitalization Ratio not greater than 66-2/3% or (ii) the Historical Debt Service Coverage Ratio of the Combined Group for the Fiscal Year preceding the date of incurrence of such Debt, was at least 1.1:1.0 (with respect to the Funded Debt of the Combined Group Outstanding immediately prior to the incurrence of such Funded Debt); (ii) either the Pro Forma Debt Service Coverage Ratio of the Combined Group would have been, or the Projected Debt Service Coverage Ratio of the Combined Group is expected to be not less than, 1.15:1.0;~~

#### Modification of Section 411(d) of the Master Indenture

*Section 411(d)(ii) of the Master Indenture is deleted in its entirety.*

~~(ii) — there has been a period of 10 consecutive days within the 12-month period immediately preceding the date of such incurrence, extension or renewal (and the Obligated Group will maintain, or cause to be maintained at least 1 such period in each Fiscal Year) during which the total amount of Outstanding Debt of the Obligated Group incurred pursuant to this clause does not exceed 5% of the Adjusted Revenues of the Obligated Group for the Fiscal Year preceding, or any period of comparable length ending within 180 days preceding the date of incurrence.~~

#### Addition of Section 606 to the Master Indenture

*Section 606 shall be added to the Master Indenture as follows:*

Section 606. Change in Obligated Group Agent. Upon written approval by each member of the Obligated Group delivered to the Trustee, the Obligated Group Members may appoint a different Obligated Group Agent; provided that such successor Obligated Group Agent shall be a member of the Obligated Group. Immediately succeeding the delivery of such notice, such successor Obligated Group Agent shall have all rights and obligations of the Obligated Group Agent set forth in this Indenture.

#### Modification of Section 901 of the Master Indenture

*Section 901 of the Master Indenture is amended by replacing the current subsection (vii) with the following, and renumbering the current subsection (vii) to subsection (viii); or*

(vii) to modify or supplement this Indenture in such a manner as to avoid any unintended impact on compliance by the Combined Group or the Obligated Group with financial covenants following any change in generally accepted accounting principles that would affect the computation of any financial ratio or other financial computation under this Indenture.

~~(vii)~~ (viii) to make any amendment to any provision of this Indenture or to any Supplemental Indenture which is only applicable to Securities issued thereafter or which will not apply so long as any Security then Outstanding remains Outstanding.

## Addition of Section 906 to the Master Indenture

*Section 906 shall be added to the Master Indenture as follows:*

**Section 906. Replacement of Master Indenture Securities. At the option of the Obligated Group Agent, and without the consent of any Holders, Securities may be surrendered by their Holders and delivered to the Trustee for cancellation upon receipt by the Trustee and the Holders of the Securities of the following:**

**(a) a Request of the Obligated Group Agent requesting such surrender and delivery and stating that an obligation or obligations are being issued to the Holder under a replacement master indenture (the "Replacement Master Indenture");**

**(b) a properly executed obligation (the "Replacement Obligation") for each Security issued under the Replacement Master Indenture and registered in the name of the Holder with the same tenor and effect as the previous Security of such Holder, duly authenticated by the master trustee under the Replacement Master Indenture;**

**(c) an Opinion of Counsel to the effect that each Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of each member of the obligated group under the Replacement Master Indenture;**

**(d) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture; and**

**(e) any of the following:**

**(i) an Officer's Certificate showing that the obligated group members under the Replacement Master Indenture (the "New Obligated Group"), after giving effect to the Replacement Obligations and assuming that the New Obligated Group constitutes the Obligated Group under the Master Indenture, could have incurred at least one dollar of Funded Debt pursuant to Section 411(a) of the Master Indenture immediately following the execution and delivery of the Replacement Master Indenture; or**

**(ii) an Officer's Certificate showing that the unrestricted net assets of the New Obligated Group will be not less than 90% of the unrestricted net assets of the Obligated Group for the most recent Fiscal Year of the Obligated Group for which audited financial statements are available; or**

**(iii) written notice of such replacement of Securities shall have been given by the New Obligated Group to each Rating Service then maintaining a long-term rating on any Security or any related bond, the then current long-term rating shall not be withdrawn if such withdrawal will result in less than two Rating Services remaining and, if the then current long-term rating is below the "A" category or its equivalent without reference to gradients or modifiers, the then current long-term rating shall not be lowered by any Rating Service as a result of such replacement of the Securities and delivery of the Replacement Obligations; and**

**(f) an Opinion of Counsel to the effect that (i) the conditions of this Section 906 have been satisfied and (ii) the replacement of the Security will not, in and of itself, result in the inclusion of the interest on any related bonds in gross income of the Holders thereof for purposes of federal income taxation.**

**APPENDIX D**  
**FORM OF OPINION OF BOND COUNSEL**

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# BRACEWELL

[DATE OF CLOSING]

Tarrant County Cultural Education Facilities  
Finance Corporation  
Fort Worth, Texas

The Bank of New York Mellon Trust  
Company, National Association, as Trustee  
Dallas, Texas

Ladies and Gentlemen:

We have acted as Bond Counsel to Cook Children's Medical Center, a Texas nonprofit corporation ("**Cook**"), in connection with the issuance by Tarrant County Cultural Education Facilities Finance Corporation (the "**Issuer**") of its Hospital Revenue Bonds (Cook Children's Medical Center) Series 2020, issued in the aggregate principal amount of [\$\_\_\_\_\_] (the "**Bonds**"). The Bonds are being issued pursuant to a Trust Indenture dated as of February 1, 2020 (the "**Trust Indenture**"), between the Issuer and The Bank of New York Mellon Trust Company, National Association, as Trustee (the "**Trustee**"). The proceeds of the Bonds will be loaned by the Issuer to Cook, pursuant to a Loan Agreement dated as of February 1, 2020 (the "**Loan Agreement**"), between the Issuer and Cook, which loan will be evidenced by a promissory note of Cook in the principal amount of the Bonds (the "**Series 2020 Note**"). Except as otherwise indicated, terms defined in the Trust Indenture or the Loan Agreement are used in this opinion with the meanings assigned therein.

We have acted as Bond Counsel 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 of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or Cook or the disclosure thereof in connection with the offer and sale of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Commissioners Court of Tarrant County, the Board of Directors of the Issuer, and certain certificates and other documents of representatives of Tarrant County, Texas, the Issuer, the Trustee, Cook, and others.

# BRACEWELL

[DATE OF CLOSING]

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We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, regulations and published rulings of the Internal Revenue Service (the “Service”), as we have deemed necessary for the purposes of this opinion. We have examined an executed Bond and, in our opinion, the form of said Bond and its execution are regular and proper.

As to questions of fact material to our opinion, we have relied, with your permission, upon representations of the Issuer and Cook contained in the Trust Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications, documents and other information furnished to us by or on behalf of Cook, other Members of the Obligated Group, the Issuer, J.P. Morgan Securities LLC, as representative for itself and on behalf of Goldman Sachs & Co. LLC and Raymond James & Associates, Inc. (collectively, the “Underwriter”), Hilltop Securities Inc., as financial advisor to Cook (the “Financial Advisor”), and others, without undertaking to verify the same by independent investigation.

We have assumed, with your permission, and without independent verification (i) the genuineness of certificates, records and other documents and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Trust Indenture by the Trustee, and the validity and binding effect of the Trust Indenture on the Trustee; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us was accurate and complete. No information has come to our attention that is inconsistent with the material facts that have been certified by the Issuer, Cook and others, and upon which we have relied in our opinions.

Based on the foregoing, and subject to the matters set forth herein, we are of the opinion that under existing law:

1. The Trust Indenture has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Issuer has assigned its rights, title, and interest in and to the Series 2020 Note, the Loan Agreement (except for certain rights of the Issuer to indemnification and payment of its fees and expenses) and the funds pledged under the Trust Indenture and all amounts held therein (other than the Rebate Fund), and has granted a valid security interest therein, to the Trustee pursuant to the Trust Indenture as security for the Bonds. The Trust Indenture validly and effectively creates the security interest that it purports to create and no additional instrument of conveyance, assignment, or transfer is necessary to create such security interest. No filing or recording of any document is required as of this date to perfect or maintain the security interest created by the Trust Indenture.

2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding special obligations of the Issuer entitled to the benefits and security of the Trust Indenture.

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The Bonds are limited obligations of the Issuer payable solely from the Trust Estate under the Trust Indenture and the revenues derived therefrom. The Bonds are not obligations of the State of Texas, Tarrant County, Texas, nor any political corporation, subdivision, or agency of the State of Texas.

3. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

4. The Bonds are “qualified 501(c)(3) bonds” within the meaning of section 145 of the Code and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

The opinions expressed herein are limited to the extent that (i) the performance and enforceability of the Trust Indenture, the Bonds, and the Loan Agreement may be subject to applicable bankruptcy, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors’ rights; (ii) general equitable principles may limit the availability of equitable remedies, including, but not limited to, the remedy of specific performance; and (iii) the enforceability of provisions relating to indemnification may be limited by public policy or applicable securities law.

In rendering these opinions, we have assumed with your permission the truth and accuracy as to factual matters of all statements and certifications made to us by the Issuer, Cook, the Underwriter, and the Financial Advisor. We have relied, with your permission, on, among other things, certificates signed by officers of the Issuer, Cook, the Underwriter, and the Financial Advisor with respect to certain material facts, estimates and expectations that are solely within the knowledge of the Issuer, Cook, the Underwriter, and the Financial Advisor respectively, which we have not independently verified. In addition, in rendering the opinions set forth in paragraphs 3 and 4, we have assumed continuing compliance with the covenants in the Loan Agreement and the Trust Indenture pertaining to those sections of the Code that affect the status of Cook as an organization described in Section 501(c)(3) of the Code and the exclusion from gross income of interest on the Bonds for federal income tax purposes. In addition, we have relied upon the opinion of Norton Rose Fulbright US LLP, of even date herewith, to the effect that Cook and the other Obligated Group Members are organizations described in Section 501(c)(3) of the Code. If the certificates upon which we have relied are determined to be inaccurate or incomplete, or the Issuer, Cook, or the other Members of the Obligated Group fail to comply with such covenants, interest on the Bonds could become includable in gross income from the date of their 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

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incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States of America 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).

The opinions expressed herein are not a guarantee of result and are not binding on 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 Issuer as the taxpayer. We observe that Cook has covenanted in the Loan Agreement 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.

This opinion speaks only as of its date and only in connection with the Bonds and may not be applied to any other transaction. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof that may affect our legal opinion and conclusions expressed herein. Further, this opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the federal laws of the United States of America.

Very truly yours,

## **APPENDIX E**

### **FORM OF CONTINUING DISCLOSURE UNDERTAKING**

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## FORM OF CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (this “Disclosure Undertaking”) by Cook Children's Medical Center, a Texas non-profit corporation (the “Medical Center”), is executed and delivered as of February 1, 2020, in connection with the issuance of the Tarrant County Cultural Education Facilities Finance Corporation Hospital Revenue Bonds (Cook Children's Medical Center) Series 2020 (the “Bonds”). The Bonds are being issued pursuant to a Trust Indenture dated as of February 1, 2020 (the “Bond Indenture”), between Tarrant County Cultural Education Facilities Finance Corporation (the “Issuer”) and The Bank of New York Mellon Trust Company, National Association, as trustee (the “Bond Trustee”). Proceeds of the Bonds are being loaned by the Issuer to the Medical Center pursuant to a Loan Agreement dated as of February 1, 2020 (the “Loan Agreement”), between the Issuer and the Medical Center.

Section 1. Purpose of the Disclosure Undertaking. This Disclosure Undertaking is being executed and delivered by the Medical Center for the benefit of the Bondholders (defined below) and in order to assist the Underwriters (defined below) in complying with the Rule (defined below) and in consideration of the agreement by the Underwriters to purchase the Bonds.

Section 2. Definitions. The capitalized terms used in this Disclosure Undertaking shall have the following meanings:

“Annual Financial Information” shall mean (a) financial information and operating data with respect to the Medical Center and the other Obligated Group Members of the general type set forth in APPENDIX A to the Official Statement in the tables under the captions “OPERATIONS – Utilization – Medical Center” and “FINANCIAL INFORMATION” and (b) audited consolidated financial statements of the Medical Center and the other Obligated Group Members of the general type in the same general form as in APPENDIX B to the Official Statement. The financial information shall be based on financial statements prepared in accordance with the accounting principles described in APPENDIX B to the Official Statement as from time to time in effect as generally accepted, or such other accounting principles as the Medical Center may be required to employ from time to time pursuant to state law or regulation. If audited financial statements are not available by the deadline for filing the Annual Financial Information, such audited financial statements shall be promptly provided when and if available, and unaudited financial statements shall be included in the Annual Financial Information.

“Bondholder” shall mean the registered owner of any Bond and any beneficial owner of Bonds when Bonds are held in a book-entry system.

“EMMA” means the MSRB’s Electronic Municipal Market Access system or any successor nationally-recognized municipal securities repository recognized by the Securities and Exchange Commission for the purposes referred to in the Rule.

“Financial Obligation” means “financial obligation” as such term is defined in the Rule.

“Foundation” means W. I. Cook Foundation, Inc., a Texas non-profit corporation doing business as Cook Children’s Health Foundation.

“Health System” means Cook Children’s Health Care System, a Texas non-profit corporation.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Master Indenture” means the Second Amended and Restated Master Trust Indenture, amended, restated and dated as of February 1, 2020, and effective as of the date of issuance of the Bonds, among the Foundation, the Health System, the Medical Center, the Physician Network and the Master Trustee.

“Master Trustee” means The Bank of New York Mellon Trust Company, National Association.

“Obligated Group” shall have the meaning ascribed to such term in the Master Indenture.

“Official Statement” shall mean the Official Statement dated February \_\_, 2020, delivered in connection with the offering and sale of the Bonds.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Physician Network” means Cook Children’s Physician Network, a Texas non-profit corporation.

“Quarterly Financial Information” for any fiscal year quarter shall mean an unaudited consolidated statement of financial position and statement of operations for the Medical Center and the other Obligated Group Members in comparative form for the portion of the fiscal year through such quarter.

“Rule” shall mean Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as amended, as in effect on the date of this Disclosure Undertaking, including any official interpretations thereof issued either before or after the effective date of this Disclosure Undertaking which are applicable to this Disclosure Undertaking.

“Specified Event” shall mean any of the following events with respect to the Bonds:

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 Bondholders, 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 an obligated person (as defined in the Rule);
13. the consummation of a merger, consolidation or acquisition involving an obligated person (as defined in the Rule) or the sale of all or substantially all of the assets of an obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. the appointment of a successor or additional trustee, or the change in the name of trustee, if material;
15. incurrence of a Financial Obligation of an obligated person (as defined in the Rule), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of an obligated person, any of which affect security holders, if material; and
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of an obligated person (as defined in the Rule), any of which reflect financial difficulties.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for an obligated person 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 an obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers of an obligated person 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 an obligated person.

“Specified Event Notice” shall mean written or electronic notice of a Specified Event.

“Underwriters” shall mean each of the original underwriters of the Bonds named in the Official Statement.

Other capitalized terms used herein but not defined herein shall have the meaning given to such terms in the Master Indenture.

Section 3. Undertaking to Provide Ongoing Disclosure.

(a) This Disclosure Undertaking constitutes the written undertaking of the Medical Center for the benefit of the Bondholders required by the Rule. The Bondholders shall be beneficiaries of this Disclosure Undertaking with the right to enforce this Disclosure Undertaking directly against the Medical Center, subject to the items hereof, and the Medical Center agrees that the Bondholders shall be so entitled to enforce this Disclosure Undertaking.

(b) The Medical Center undertakes to provide Annual Financial Information, Quarterly Financial Information and Specified Event Notices as set forth herein to the MSRB in electronic format and accompanied by identifying information as prescribed by the MSRB.

(c) The Medical Center shall, while any Bonds are outstanding, provide Annual Financial Information for each fiscal year to the MSRB, by the fifteenth day of the fifth month after the end of such fiscal year (the “Annual Report Date”) commencing with Annual Financial Information for the fiscal year ending September 30, 2020. It shall be sufficient if the Medical Center provides the Annual Financial Information by specific reference to documents previously provided to the MSRB or filed with the Securities and Exchange Commission.

(d) The Medical Center shall, while any Bonds are outstanding, provide Quarterly Financial Information for each of the first three fiscal quarters of each fiscal year to the MSRB, not later than 60 days after the end of such fiscal quarter, beginning with Quarterly Financial Information for the fiscal quarter ending March 31, 2020.

(e) If a Specified Event occurs while any Bonds are outstanding, the Medical Center shall provide a Specified Event Notice describing the material event in a timely manner to the MSRB. Each Specified Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(f) The Medical Center shall provide notice in a timely manner to the MSRB of any failure while any Bonds are outstanding to provide Annual Financial Information on or before the Annual Report Date (for any reason) as provided herein.

(g) The Medical Center's current fiscal year is October 1 to September 30, and the Medical Center shall promptly notify the MSRB in writing of each change in its fiscal year.

(h) Any filings required to be made with or notices to be given to the MSRB under this Disclosure Undertaking shall be effected by sending the filing or notice to EMMA at [www.emma.msrb.org](http://www.emma.msrb.org) in an electronic format accompanied by identifying information as prescribed by the MSRB. The Medical Center agrees to comply with the provisions of EMMA in making such filings and giving such notices under this Disclosure Undertaking.

Section 4. Termination of Reporting Obligation. The continuing obligation hereunder of the Medical Center to provide Annual Financial Information, Quarterly Financial Information and Specified Event Notices pursuant to Section 3 of this Disclosure Undertaking shall terminate immediately once the Bonds are no longer outstanding under the Bond Indenture.

Section 5. Disclosure Representative. The Medical Center may, from time to time, appoint or engage a disclosure representative to assist it in carrying out its obligations under this Disclosure Undertaking and may discharge any such disclosure representative at any time.

Section 6. Amendment; Waiver. The provisions of this Disclosure Undertaking, including but not limited to the provisions relating to the accounting principles pursuant to which the financial statements of the Medical Center and its affiliates are prepared, may from time to time be amended as deemed appropriate by the Medical Center 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 Obligated Group and its affiliates, if (i) this Disclosure Undertaking, as amended, would have permitted an underwriter to purchase or sell the Bonds in a primary offering in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the Medical Center (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Bondholders. The Medical Center shall provide notice of such amendment to the MSRB.

Section 7. Additional Information. Nothing in this Disclosure Undertaking shall be deemed to prevent the Medical Center from disseminating any other information, using the means of dissemination set forth in this Disclosure Undertaking or any other means of communication, or including any other information in any Annual Financial Information, Quarterly Financial Information or Specified Event Notice, in addition to that which is required by this Disclosure Undertaking.

Section 8. Default. In the event of a failure of the Medical Center to comply with any provision of this Disclosure Undertaking, any Bondholder may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Medical Center to comply with its obligations under this Disclosure Undertaking. A default under this Disclosure Undertaking shall not be deemed an Event of Default under the Master Indenture, the Bond Indenture or the Loan Agreement, and the sole remedy under this Disclosure Undertaking in the event of any failure of the Medical Center, to comply with this Disclosure Undertaking shall be an action to compel specific performance. The Medical Center disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of this Disclosure Undertaking or from any statement made pursuant to this Disclosure Undertaking.

Section 9. Limitations and Disclaimers. The Medical Center shall be obligated to observe and perform the covenants specified in this Disclosure Undertaking for so long as, but only for so long as, any member of the Obligated Group remains an “obligated person” with respect to any of the Bonds within the meaning of the Rule. The Medical Center in any event shall give the notice required by Section 3 of this Disclosure Undertaking of any calls or defeasances that cause any member of the Obligated Group to no longer be such an “obligated person.”

The provisions of this Disclosure Undertaking are for the sole benefit of the Bondholders and nothing in this Disclosure Undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other Person. The Medical Center undertakes to provide only the information and notices that it has expressly agreed to provide pursuant to this Disclosure Undertaking and does not undertake to provide any other information that may be relevant or material to a complete presentation of financial results, condition or prospects of any member of the Obligated Group or the Obligated Group as a whole or to update any information provided in accordance with this Disclosure Undertaking or otherwise, except as expressly provided herein. The Medical Center does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell any Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE MEDICAL CENTER BE LIABLE TO THE BONDHOLDERS OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY IT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH, SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

Nothing in this Disclosure Undertaking is intended or shall act to disclaim, waive, or otherwise limit the duties of the Medical Center or any other member of the Obligated Group under federal and state securities laws.

Section 10. Beneficiaries. This Disclosure Undertaking shall inure solely to the benefit of the Bondholders and shall create no rights in any other person or entity.

Section 11. Governing Law. This Disclosure Undertaking shall be governed by and construed in accordance with the laws of the State of Texas.

*[Signature page follows]*

COOK CHILDREN'S MEDICAL CENTER

By: \_\_\_\_\_  
Authorized Officer

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