

**MONTGOMERY COUNTY
HOSPITAL DISTRICT**

AUDITED FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2004

MONTGOMERY COUNTY HOSPITAL DISTRICT

AUDITED FINANCIAL STATEMENTS

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Independent Auditors' Report

Board of Directors
Montgomery County Hospital District
Conroe, Texas

We have audited the accompanying financial statements of the governmental activities and the major fund of the Montgomery County Hospital District, as of and for the year ended September 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Montgomery County Hospital District management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Montgomery County Hospital District, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2002.

The management's discussion and analysis on pages 3 through 15, and the budgetary comparison information on page 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Null Lairson, P.C.

Houston, Texas
March 15, 2005

Management's Discussion and Analysis

This discussion and analysis provides readers of the financial statements of Montgomery County Hospital District, (the "District"), with a narrative overview and analysis of the financial activities of the District for the fiscal year ended September 30, 2004. This discussion should be read in conjunction with the basic financial statements and the notes to the financial statements. This discussion and analysis includes comparative data for the prior year.

Financial Highlights

- The District lowered the tax rate by 19.1% for fiscal year 2004 from \$.1338 per \$100 value in 2003 to \$.1082 per \$100 value in 2004. Total assessed valuation increased by 9.0% from \$16.6 billion in 2003 to \$18.1 billion in 2004.
- The assets of the District exceeded its liabilities at September 30, 2004 by \$18,423,405 (net assets). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net assets also reflect \$5,365,789 invested in capital assets net of accumulated depreciation and related debt. With the presentation of the investment in capital assets, unrestricted net assets amount to \$13,057,616 (unrestricted net assets) and may be used to meet the District's ongoing obligations to citizens and creditors.
- The revenues for the District's government-wide activities were \$27,519,061 and expenses were \$26,446,865 resulting in an increase in total net assets of \$1,072,196.
- In contrast to the government-wide statements, the District's governmental funds reported combined ending balances at September 30, 2004 of \$11,766,752, an increase of \$3,264,576 from the prior year. Approximately 94.1% of the ending balance, \$11,073,904, is available for spending at the District's discretion.
- At September 30, 2004, unreserved fund balance for the General Fund was \$11,073,904 or 40.4% of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Beginning with the fiscal year ended September 30, 2003, the District presents its basic financial statements under a new reporting model established by the Governmental Accounting Standards Board (GASB) Statement No. 34.

The District's basic financial statements are comprised of three components:

- 1) government-wide financial statements,
- 2) fund financial statements and
- 3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements, which include the Statement of Net Assets and the Statement of Activities, are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are presented using the full accrual basis of accounting; therefore, revenues are reported when they are earned and expenses are reported when the goods or services are received, regardless of the timing of cash being received or paid.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. The GASB believes that, over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Because the Statement of Activities separates program revenue (revenue generated by specific programs through tenant rent, fees and program charges for services) from general revenue (revenue provided by taxes and other sources not tied to a particular program), it shows to what extent each function has to rely on general revenues for funding. The functions of the District include administration, healthcare assistance, emergency medical services, radio systems and information systems.

The government-wide financial statements include not only the District itself (known as the primary government), but also the legally separate Montgomery County Healthcare Foundation (MCHF) and Montgomery County Hospital District Public Facility Corporation (MCHDPFC), which are instrumentalities of the District and for which the District is financially accountable. MCHF and MCHDPFC are legally separate from the District and they are governed by their own separate board of directors. MCHF and MCHDPFC are considered blended component units of the District as defined by GASB. MCHDPFC was dissolved during fiscal 2004.

The government-wide financial statements can be found on pages 19-21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Government-wide financial statements are reported using full accrual accounting while governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of available resources available at the end of the fiscal year. Governmental fund financial statements report revenue when earned, provided it is collectible within the reporting period or soon enough afterward to pay liabilities of the current period. Likewise, liabilities are recognized as expenditures only when payment is due since they must be liquidated with available cash. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. To assist the reader, a comparison between the two bases of accounting is provided. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintained one governmental fund, the General Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund which is considered to be the major fund. MCHF and MCHDPFC are considered blended component units of the District and have been included in the General Fund.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund. The budgetary comparison can be used to demonstrate compliance with the budget in its original and final forms.

The basic governmental fund financial statements can be found on pages 23-26 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The basic fiduciary fund financial statement can be found on page 27 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. As such, the notes are an integral part of the basic financial statements.

The notes to the financial statements can be found on pages 28-40 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information comprised of a comparison between the District's General Fund final budget and actual results. Required supplementary information can be found on page 42 of this report.

Government-wide Financial Analysis

As noted earlier, the GASB believes net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$18,423,405, at September 30, 2004, as shown in the table below.

Montgomery County Hospital District
Net Assets - Government Activities
At September 30,

	2004	2003
Current and other assets	\$ 15,232,072	\$ 12,493,655
Capital assets	5,365,789	10,903,580
Total assets	20,597,861	23,397,235
Current liabilities	1,908,671	2,592,110
Long-term liabilities	265,785	3,453,916
Total liabilities	2,174,456	6,046,026
Net assets:		
Invested in capital assets, net of related debt	5,365,789	7,882,799
Restricted		
Unrestricted	13,057,616	9,468,410
Total net assets	\$ 18,423,405	\$ 17,351,209

The District's total assets of \$20,597,861 are largely comprised of investments of \$11,118,615, or 54.0%, and capital assets net of accumulated depreciation of \$5,365,789, or 26.1 %. Capital assets are non-liquid assets and cannot be used to satisfy the District's obligations. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt, if any, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The decrease in capital assets is primarily due to the sale of a building with a net value of \$4,576,913.

Current liabilities of \$1,908,671, or 87.8%, are the largest portion of the District's total liabilities of \$2,174,456. A more in-depth description of liabilities can be found in the notes to the financial statements. The decrease in long-term liabilities is primarily due to the retirement of notes totaling \$3,195,198 related to the sale of a building.

At September 30, 2004, the District's assets exceeded its liabilities by \$18,423,405. Investment in capital assets net of related debt represents \$5,365,789, or 29.1% of total net assets. The remaining \$13,057,616, or 70.9%, is unrestricted net assets. Unrestricted net assets have increased over last year by \$3,589,206.

The District's governmental activities increased net assets by \$1,072,196, or 6.2%. The key components of this increase are as follows:

**Montgomery County Hospital District
Government Activities
for the Year Ended September 30,**

	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues:		
Administration	\$ 1,945,090	\$ 991,168
Healthcare assistance	78,516	159,952
Emergency medical services	5,380,992	5,371,809
Radio systems	246,492	260,235
General revenues:		
Property taxes	20,161,887	22,128,353
Unrestricted investment earnings	154,687	141,877
Other general revenues		236,735
Loss on sale of capital assets	(448,603)	
Total revenues	<u>27,519,061</u>	<u>29,290,129</u>
Expenses:		
Administration	3,535,505	2,614,501
Healthcare assistance	10,988,048	12,663,890
Emergency medical services	10,508,614	10,994,136
Radio systems	893,351	983,361
Information systems	521,347	330,200
Total expenses	<u>26,446,865</u>	<u>27,586,088</u>
Change in net assets	1,072,196	1,704,041
Net assets - beginning	17,351,209	15,647,168
Net assets - ending	<u>\$ 18,423,405</u>	<u>\$ 17,351,209</u>

The District's total revenues of \$27,519,061 were all from governmental activities. Property tax revenue accounts for \$20,161,887, or 73.3%, emergency medical services revenue accounts for \$5,380,992, or 19.6%, and administration revenue totaled \$1,945,090, or 7.1%, of total government-wide revenues. Total revenues decreased by \$1,771,068 over last year.

Total expenses, for the year ended September 30, 2004, amounted to \$26,446,865. Healthcare assistance accounted for \$10,988,048, or 41.5% while emergency medical services accounted for \$10,508,614, or 39.7% of total government-wide expenses. Total expenses decreased by \$1,139,223 over last year. Healthcare assistance expenses decreased by \$1,675,842. The savings are primarily attributable to better contract rates for certain healthcare services, improved monitoring of costs, and improvements in the eligibility screening for participants including implementation of fraud reduction strategies.

The District's ending net assets of \$18,423,405 represents an increase of \$1,072,196 over last year's net assets of \$17,351,209. The District's change in net assets is summarized by the following table:

**Montgomery County Hospital District
Change in Net Assets
for the Year Ended September 30,**

	<u>2004</u>	<u>2003</u>
Governmental funds activity:		
Total revenues	\$ 26,139,372	\$ 28,972,143
Total expenditures	<u>24,545,807</u>	<u>27,588,584</u>
Revenues over expenditures	1,593,565	1,383,559
Proceeds from tobacco settlement	442,222	343,408
Proceeds from other sources	226,887	134,151
Proceeds from sale of building	1,001,902	
Proceeds from fund transfers		124,946
Net change in fund balance	<u>3,264,576</u>	<u>1,986,064</u>
Government-wide activity:		
Difference between current year capital outlay expenditures and depreciation expense	(5,537,792)	(828,804)
Revenues not reported in funds because they do not provide current period financial resources	157,280	(284,519)
Difference between long-term debt proceeds and repayments	3,195,198	858,787
Expenses not reported in the funds because they do not use current period financial resources	<u>(7,066)</u>	<u>(27,487)</u>
Total change in net assets	<u>\$ 1,072,196</u>	<u>\$ 1,704,041</u>

The change in net assets is the difference between governmental revenues and expenditures, (\$1,593,565) plus other financing sources, (\$1,671,011). Other items affecting the change in net assets include the difference between capital additions and depreciation expense, (\$5,537,792), the difference between long-term debt proceeds and repayments, (\$3,195,198) and revenue and expenses that do not provide or require the use of current financial resources, (\$150,214).

The following table summarizes expenses and program revenues for the year ended September 30, 2004.

**Montgomery County Hospital District
Expenses and Program Revenue
Governmental Activities**

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Net (Expense) Revenue</u>
Revenues:			
Program:			
Administration	\$ 3,535,505	\$ 1,945,090	\$ (1,590,415)
Healthcare assistance	10,988,048	78,516	(10,909,532)
Emergency medical services	10,508,614	5,380,992	(5,127,622)
Radio systems	893,351	246,492	(646,859)
Information services	521,347		(521,347)
Program totals	<u>26,446,865</u>	<u>7,651,090</u>	<u>(18,795,775)</u>
General revenues:			
Property taxes		20,161,887	20,161,887
Unrestricted investment earnings		154,687	154,687
Loss on sale of capital assets		(448,603)	(448,603)
Totals	<u>\$ 26,446,865</u>	<u>\$ 27,519,061</u>	<u>\$ 1,072,196</u>

Program revenues, for the year ended September 30, 2004, amounted to \$7,651,090 or 27.8% of total revenue. Revenue from emergency medical services totaled \$5,371,809, or 70.3%, and administration totaled \$1,945,090, or 25.4%, of program revenue.

The following table depicts revenues for the year ended September 30, 2004.

**Montgomery County Hospital District
Revenue by Source - Governmental Activities**

Revenues:	<u>Amount</u>	<u>Percent</u>
Property taxes	\$ 20,161,887	73.3%
Program revenue	7,651,090	27.8%
Investment earnings	154,687	0.5%
Loss on sale of capital assets	(448,603)	-1.6%
Total revenues	<u>\$ 27,519,061</u>	<u>100.0%</u>

Governmental Fund Financial Analysis

The District uses fund accounting to ensure and demonstrate compliance with legal requirements.

As noted earlier, governmental funds are a means of providing information on near-term inflows, outflows and balances of usable resources.

At September 30, 2004, the District's governmental funds reported combined ending fund balances of \$11,766,752, an increase of \$3,264,576 from prior year. The majority, approximately 94.1%, of the fund balance, \$11,073,904, constitutes unreserved fund balance, which is available for spending at the District's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) for inventories (\$221,207), 2) to encumbrances (\$141,844), 3) to prepaid items (\$158,165), or 4) for a variety of other restricted purposes (\$171,632).

The general fund is the chief operating fund of the District. At the end of the fiscal year, unreserved fund balance of the general fund was \$11,073,904, while total fund balance reached \$11,766,752. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 40.4% of total general fund expenditures, while total fund balance represents 42.9% of that same amount.

The fund balance of the District's general fund increased by \$3,264,576 during the current fiscal year. Key factors in this growth are related to overall cost reducing strategies undertaken by the District and the sale of a building which the District had previously purchased as its headquarters by and through the MCHDPFC.

General Fund Budgetary Highlights

The District's budget is prepared on a modified accrual basis. Differences between the original budget and the final amended budget are reflected in the following table

Montgomery County Hospital District Budget Comparison Year Ended September 30, 2004

	Original Budget	Final Budget	Variance with Original Budget Positive (Negative)
Revenues:			
Program:			
Property taxes	\$ 19,577,295	\$ 19,577,295	\$
Program revenues	6,182,670	6,187,670	5,000
Tenant revenue	606,000	302,177	(303,823)
Investment earnings			
Miscellaneous	50,162	50,162	
Total revenues	<u>26,416,127</u>	<u>26,117,304</u>	<u>(298,823)</u>
Expenditures:			
Administration	2,853,931	2,741,886	112,045
Healthcare assistance	11,936,290	11,990,456	(54,166)
Emergency medical services	10,632,122	10,676,149	(44,027)
Radio systems	603,320	703,522	(100,202)
Information systems	360,062	409,426	(49,364)
Total expenditures	<u>26,385,725</u>	<u>26,521,439</u>	<u>(135,714)</u>
Excess (deficiency) revenues over expenditures	<u>30,402</u>	<u>(404,135)</u>	<u>(434,537)</u>
Other financing sources:			
Tobacco settlement		442,222	442,222
Total other financing sources and uses		<u>442,222</u>	<u>442,222</u>
Special item:			
Proceeds from sale of building		1,001,902	1,001,902
Net change in fund balances	30,402	1,039,989	1,009,587
Fund balance - beginning	8,502,176	8,502,176	
Fund balance - ending	<u>\$ 8,532,578</u>	<u>\$ 9,542,165</u>	<u>\$ 1,009,587</u>

The following table presents the differences between the final amended budget and the actual expenditures for the General Fund for the year ended September 30, 2004.

**Montgomery County Hospital District
Budget Variance
Year Ended September 30, 2004**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Program:			
Property taxes	\$ 19,577,295	\$ 20,004,607	\$ 427,312
Program revenues	6,187,670	5,609,822	(577,848)
Tenant revenue	302,177	302,176	(1)
Investment earnings		154,687	154,687
Miscellaneous	50,162	68,080	17,918
Total revenues	<u>26,117,304</u>	<u>26,139,372</u>	<u>22,068</u>
Expenditures:			
Administration	2,741,886	2,340,131	401,755
Healthcare assistance	11,990,456	10,932,645	1,057,811
Emergency medical services	10,676,149	10,257,558	418,591
Radio systems	703,522	672,710	30,812
Information systems	409,426	342,763	66,663
Total expenditures	<u>26,521,439</u>	<u>24,545,807</u>	<u>1,975,632</u>
Excess (deficiency) revenues over expenditures	<u>(404,135)</u>	<u>1,593,565</u>	<u>1,997,700</u>
Other financing sources:			
Tobacco settlement	442,222	442,222	
Other sources		226,887	226,887
Total other financing sources	<u>442,222</u>	<u>669,109</u>	<u>226,887</u>
Special item:			
Proceeds from sale of building	1,001,902	1,001,902	
Net change in fund balance	1,039,989	3,264,576	2,224,587
Fund balance - beginning	8,502,176	8,502,176	
Fund balance - ending	<u>\$ 9,542,165</u>	<u>\$ 11,766,752</u>	<u>\$ 2,224,587</u>

Capital Assets and Debt Administration

Capital assets

The District's investment in capital assets for its governmental activities as of September 30, 2004, amounts to \$5,365,789 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and communication systems.

Major capital asset events during the current fiscal year included the following:

- A building was sold with a net value of \$4,576,913.
- Vehicles were purchased at a cost of \$521,250. These vehicles were replacements for vehicles retired and sold.
- Increases in assets were offset by depreciation expense of \$1,692,142.

Montgomery County Hospital District Capital Assets Net of Accumulated Depreciation

	September 30,		Increase (Decrease)
	2004	2003	
Land	\$ 165,683	\$ 165,683	\$
Building	159,018	4,859,811	(4,700,793)
Equipment	2,421,546	2,674,174	(252,628)
Vehicles	1,319,080	1,519,058	(199,978)
Communication system	1,300,462	1,684,854	(384,392)
Total	<u>\$ 5,365,789</u>	<u>\$ 10,903,580</u>	<u>\$ (5,537,791)</u>

Additional information on the District's capital assets can be found in Note 6 on pages 37-38 of this report.

Long-term debt

At September 30, 2004, the District had total long-term debt outstanding of \$265,785 related to compensated absences. The following table summarizes the District's long-term debt.

Montgomery County Hospital District Government Activities Outstanding Long-Term Debt

	September 30,	
	2004	2003
Notes payable	\$	\$ 3,195,198
Compensated absences	265,785	258,718
Total	<u>\$ 265,785</u>	<u>\$ 3,453,916</u>

The District's total debt decreased by \$3,188,131 (92.3%) during fiscal year 2004. The key factor in this decrease was the retirement of notes payable related to the sale of a building.

Additional information on the District's long-term debt can be found in Note 7 on page 38 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Montgomery County is currently 4.7%, which is a decrease from the rate of 5.4% last year. This compares favorably to the State's average unemployment of 5.8% and the national average rate of 5.5%.
- The population of Montgomery County in 2003 was approximately 343,000, an increase of 4.9% from 2002.
- The estimated median household income for Montgomery County increased from \$46,753 in 2002 to \$57,943 in 2003 according to the U.S. Census Bureau.
- According to the U.S. Census Bureau, 8% of residents in Montgomery County were below the poverty level in 2003, compared to 7% in 2002.
- The District provides healthcare assistance to residents of Montgomery County with income at or below 150% of the federal poverty level (FPL). One hundred fifty percent of the annual FPL for an individual was \$13,470 and \$13,965 for fiscal 2003 and 2004, respectively. For a family of four, 150% of FPL amounted to \$27,600 and \$28,275 for fiscal 2003 and 2004, respectively.

All of these factors were considered in preparing the District's budget for the 2005 fiscal year.

During the 2004 fiscal year, fund balance in the general fund increased \$3,264,576. The District has reduced 2005 taxes from \$.1082 to \$.0999 per \$100 value by controlling costs through prudent fiscal management.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those who are interested in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Montgomery County Hospital District, P.O. Box 478, Conroe, Texas 77305.

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BASIC FINANCIAL STATEMENTS

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MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF NET ASSETS
September 30, 2004

	Governmental Activities	Total
ASSETS		
Cash and equivalents	\$ 519,575	\$ 519,575
Temporary investments	11,118,615	11,118,615
Receivables, net	3,214,512	3,214,512
Inventories	221,207	221,207
Other assets	158,163	158,163
Capital assets (net of accumulated depreciation)		
Land	165,683	165,683
Buildings	159,018	159,018
Equipment	2,421,546	2,421,546
Vehicles	1,319,080	1,319,080
Communication system	1,300,462	1,300,462
Total capital assets	<u>5,365,789</u>	<u>5,365,789</u>
Total assets	<u>20,597,861</u>	<u>20,597,861</u>
LIABILITIES		
Accounts payable and accrued expenses	1,881,304	1,881,304
Deferred revenues	27,367	27,367
Long-term liabilities		
Due within one year		
Compensated absences	7,973	7,973
Due in more than one year		
Compensated absences	257,812	257,812
Total liabilities	<u>2,174,456</u>	<u>2,174,456</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,365,789	5,365,789
Unrestricted	13,057,616	13,057,616
Total net assets	<u>\$ 18,423,405</u>	<u>\$ 18,423,405</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenue</u>
Primary government		<u>Charges for Services</u>
Governmental activities		
Administration	\$ 3,535,505	\$ 1,945,090
Healthcare assistance	10,988,048	78,516
Emergency medical services	10,508,614	5,380,992
Radio systems	893,351	246,492
Information systems	521,347	
Total governmental activities	<u>\$ 26,446,865</u>	<u>\$ 7,651,090</u>

General revenues:

 Taxes:
 Property taxes
 Unrestricted investment earnings
 Loss on sale of capital assets
 Total general revenues
 Change in net assets
Net assets - beginning
Net assets - ending

See Notes to Accompanying Financial Statements.

**Net (Expense) Revenue and Changes in
Net Assets**

Primary Government

Governmental Activities	Total
\$ (1,590,415)	\$ (1,590,415)
(10,909,532)	(10,909,532)
(5,127,622)	(5,127,622)
(646,859)	(646,859)
(521,347)	(521,347)
(18,795,775)	(18,795,775)
20,161,887	20,161,887
154,687	154,687
(448,603)	(448,603)
19,867,971	19,867,971
1,072,196	1,072,196
17,351,209	17,351,209
\$ 18,423,405	\$ 18,423,405

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MONTGOMERY COUNTY HOSPITAL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2004

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 519,575	\$ 519,575
Temporary investments	11,118,615	11,118,615
Receivables		
Taxes receivable, net	1,556,651	1,556,651
EMS receivable, net	1,627,478	1,627,478
Other receivables	30,383	30,383
Inventories	221,207	221,207
Prepaid expenses	158,165	158,165
Total assets	<u>\$ 15,232,074</u>	<u>\$ 15,232,074</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,881,304	\$ 1,881,304
Deferred revenue	1,584,018	1,584,018
Total liabilities	<u>3,465,322</u>	<u>3,465,322</u>
Fund balances:		
Reserved for:		
Inventories	221,207	221,207
Encumbrances	141,844	141,844
Prepaid expenses	158,165	158,165
Other purposes	171,632	171,632
Unreserved	<u>11,073,904</u>	<u>11,073,904</u>
Total fund balances	<u>11,766,752</u>	<u>11,766,752</u>
Total liabilities and fund balances	<u>\$ 15,232,074</u>	<u>\$ 15,232,074</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2004

Total fund balance, governmental funds \$ 11,766,752

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 5,365,789

Certain other long-term receivables are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets. 1,556,649

Some liabilities are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.

These are as follows:

Compensated absences payable (265,785)

Net Assets of Governmental Activities in the Statement of Net Assets \$ 18,423,405

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Property taxes	\$ 20,004,607	\$ 20,004,607
Tenant	302,176	302,176
Program	5,609,822	5,609,822
Investment earnings	154,687	154,687
Miscellaneous	68,080	68,080
Total revenues	<u>26,139,372</u>	<u>26,139,372</u>
EXPENDITURES		
Current:		
Administration	2,340,131	2,340,131
Healthcare assistance	10,932,645	10,932,645
Emergency medical services	10,257,558	10,257,558
Radio systems	672,710	672,710
Information systems	342,763	342,763
Total expenditures	<u>24,545,807</u>	<u>24,545,807</u>
Revenues over (under) expenditures	<u>1,593,565</u>	<u>1,593,565</u>
OTHER FINANCING SOURCES (USES)		
Tobacco settlement	442,222	442,222
Other sources	226,887	226,887
Total other financing sources and uses	<u>669,109</u>	<u>669,109</u>
SPECIAL ITEM		
Proceeds from sale of building	1,001,902	1,001,902
Revenues and other financing sources over expenditures	<u>3,264,576</u>	<u>3,264,576</u>
Fund balances - beginning of year	<u>8,502,176</u>	<u>8,502,176</u>
Fund balances - end of year	<u>\$ 11,766,752</u>	<u>\$ 11,766,752</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

Net change in fund balances - total governmental funds: \$ 3,264,576

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays exceeded depreciation in the current period. (5,537,792)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (1,001,902)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. 157,280

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of repayments made on long term debt during the current year. 4,197,100

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds. (7,066)

Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Change in net assets of governmental activities \$ 1,072,196

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUND
September 30, 2004

	<u>Deferred</u> <u>Compensation Plan</u>
ASSETS	
Cash and cash equivalents	\$ 237,689
Total assets	<u>\$ 237,689</u>
LIABILITIES	
Due to others	\$ 237,689
Total liabilities	<u>\$ 237,689</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Montgomery County Hospital District, (the "District"), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below:

A. Reporting entity

The District is a political subdivision created in 1977 by an act of the Texas legislature and a vote of ratification by the residents of Montgomery County, Texas. Originally, the District operated the Medical Center Hospital in Conroe, Texas, which was sold on May 26, 1993 to Health Trust, Inc. (Health Trust). Since 1993, the District has contracted with the new owners of the hospital to provide indigent medical care to the residents of Montgomery County. The District also contracts with other healthcare providers in the county to provide indigent care for county residents. In addition to indigent care, the District provides for emergency medical ambulance services for county residents and has constructed a countywide communication system to facilitate providing healthcare services to the residents. As required by GAAP, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions, as part of the District's financial reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by GAAP. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining the District's financial reporting entity status as that of a primary government are: 1) it has a separately elected governing body, 2) it is legally separate and 3) it is fiscally independent of other state and local governments. Additional prescribed criteria under GAAP include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District's financial statements include the District (the primary government), Montgomery County Healthcare Foundation (MCHF) and Montgomery County Hospital District Public Facility Corporation (MCHDPFC). MCHF and MCHDPFC are legally separate from the District and they are governed by their own separate board of directors. However, they constitute instrumentalities of the District and were formed to carry out specific governmental purposes on the District's behalf. MCHF and MCHDPFC are considered blended component units of the District as defined by GASB. MCHDPFC was dissolved during fiscal 2004.

B. Financial statement presentation

These financial statements include implementation of Governmental Accounting Standards Board (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Financial statement presentation (continued)

Certain of the significant items in the Statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and changes in financial position.
- Government-wide financial statements prepared using the accrual basis of accounting for all of the District’s governmental and business type activities.
- Fund financial statements focusing on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets and a statement of activities. It requires the reclassification of net assets into three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. These classifications are defined as follows:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information about the District as a whole. These statements include all nonfiduciary activities of the primary government and its blended component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Government-wide and fund financial statements (continued)

In September 1993, the Governmental Accounting Standards Board issued Statement No. 29, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting" which are effective for the District's financial statements for the year ending September 30, 2004. This statement provides guidance on accounting and financial reporting for business type and enterprise fund activities. The District has elected alternative number one (1) from those provided by this standard. This alternative method elects to apply all GASB pronouncements as well as FASB pronouncements that were issued after November 30, 1989.

D. Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Fund financial statements of the District are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund financial statement presentation

The following fund types are included in the general purpose financial statements:

Governmental Fund

The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues of the General Fund are property taxes and EMS charges for services. Expenditures are for administration, healthcare assistance, emergency medical services, radio systems and information systems.

Fiduciary Fund

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement.

F. Budgets

The District adopts a budget each fiscal year. Expenditures for all departments were within their respective budget appropriations.

Encumbrance accounting is utilized in all governmental fund types. Any encumbered appropriation lapse at year-end must be reappropriated in the following year. Encumbrances for materials, other goods and purchased services are documented by purchase orders or contracts. Encumbrances outstanding at year-end do not constitute expenditures or liabilities under GAAP. The District honors these commitments and records GAAP expenditures in the subsequent year as the transactions are completed. At year end, the District reserved a portion of fund balance for outstanding encumbrances of \$141,844 in the General Fund.

G. Temporary Investments

Temporary investments consist of amounts in the Texas Local Government Investment Pool (TexPool). TexPool is an external investment pool established by interlocal contracts under state law.

H. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

I. Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are, for the most part, eliminated from the Government-Wide Statement of Net Assets and are classified as "due from other funds" or "due to other funds" in the fund financial statements. Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Inventory

Inventory is valued at cost using the First In First Out method. Inventories consist of expendable supplies and materials held for consumption. The cost is recorded as an expenditure as the items are consumed.

K. Fund Balance

In the fund financial statements of the governmental fund, the District reserves or designates all or portions of fund balance in the various governmental fund financial statements. Reserves of fund balance represent those portions of fund balance not appropriable for expenditure or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans for future use of financial resources.

L. Compensated Absences

The District records all vacation, sick leave and holiday benefits as a single benefit called Paid Time Off (PTO). Employees are allowed to carry over the number of hours equal to one year of accrued PTO.

For the governmental fund, accumulated compensated absences are normally paid from the general fund and are treated as expenditure when paid. All compensated absences are accrued when incurred in the government-wide financial statements. A liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

M. Use of Estimates

The preparation of financial statements in conformity with GAAP 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, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

**MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5 - 30
Equipment	3 - 15
Vehicles	3 - 5
Communication system	3 - 15

O. Long-term Obligations

The government-wide financial statements report long-term obligations as liabilities in the governmental activities statement of net assets.

NOTE 2 - CASH AND TEMPORARY INVESTMENTS

Cash and Cash Equivalents

At September 30, 2004, the District had total cash balances of \$519,575, consisting primarily of demand deposits held by a local financial institution.

Collateral is required for all bank deposits at 100% of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the District's deposits is required to be held in the District's name by the trust department of a bank other than the pledging bank (the District's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances. Deposits at year-end are representative of the types of deposits maintained by the District during the year.

The District's deposits at year-end were entirely covered by federal depository insurance or by acceptable pledged collateral held by the District's agent in the District's name.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 2 - CASH AND INVESTMENTS (continued)

Temporary Investments

Under provisions of state and local statutes, the District's investment policy, and provisions of the District's depository contract, the District is authorized to place available deposits and investments in the following:

1. Obligations of the U. S., its agencies and instrumentalities.
2. Direct obligations of the State of Texas or its agencies.
3. Other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies and instrumentalities.
4. Certificates of deposit or share certificates issued by a state or national bank domiciled in Texas or a state or federal savings bank domiciled in Texas that is guaranteed or insured by the FDIC or its successor or the National Credit Union Share Insurance Fund or its successor and is secured by obligations described in above, including mortgage-backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates or secured in any other manner and amount provided by law for the deposits of the District.
5. Public funds investment pools meeting the requirements of Government Code 2256.016-2256.019, if the Board authorizes the investment in the particular pool by resolution.

The Board of Directors has adopted a written investment policy regarding the investments of its funds as defined by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the District are in compliance with the Board's investment policies. The District did not have any derivative investment products during the current year. The District is in compliance with all the requirements of the Public Funds Investment Act, except the quarterly reporting requirement. Investments at year-end are representative of the types of investments maintained by the District during the year.

Similar to cash deposits, the carrying amounts and fair values of the District's investments can be categorized according to three levels of risk. These credit risk categories are as follows:

1. Insured or registered, or securities held by the entity or its agent in the entity's name,
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name,
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

At year end, temporary investments of the District totaled \$11,118,615, all of which was invested in TexPool.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTES 2 – CASH AND INVESTMENTS (continued)

Investments not Categorized

The TexPool investment has not been categorized by credit risk because it is not evidenced by securities that exist in physical or book entry form; however, TexPool policies require that funds deposited by local governments be used to purchase investments authorized by the Public Funds Investment Act, as amended. Treasury securities are held by the District's agent bank in the District's name. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

NOTE 3 - PROPERTY TAXES

Property taxes for each year are levied by the District on approximately October 1 and are due upon receipt of the tax bill and become delinquent on February 1 of the following year. On February 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Montgomery Central Appraisal District (MCAD) through procedures established by the Texas Legislature. The County Tax Assessor Collector bills and collects the District's property taxes.

The District is authorized to levy a tax on taxable property located within the District in an amount not to exceed \$0.75 per \$100 valuation for the purpose of paying operating expenses and for debt service. The current tax rate is approximately \$0.1082 per \$100 valuation. Taxes for fiscal year 2004 were levied on property within the District having an assessed valuation of \$18.1 billion.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 3 - PROPERTY TAXES (continued)

Property taxes and allowance for uncollectibles as of September 30, 2004, are as follows:

<u>Year of Levy</u>	<u>Property Tax</u>	<u>Penalty & Interest</u>	<u>Total</u>
2003	\$ 439,610	\$ 87,922	\$ 527,532
2002	263,275	84,248	347,523
2001	159,933	70,371	230,304
2000	127,639	71,478	199,117
1999	55,802	37,945	93,747
1998	36,381	29,105	65,486
1997	30,133	27,722	57,855
1996	34,667	36,054	70,721
1995	32,672	37,900	70,572
1994	28,698	36,733	65,431
1993	35,685	49,959	85,644
1992	46,462	70,622	117,084
1991 and prior	254,207	492,904	747,111
	<u>1,545,164</u>	<u>1,132,963</u>	<u>2,678,127</u>
Less allowance	<u>(461,646)</u>	<u>(659,830)</u>	<u>(1,121,476)</u>
Receivable, net of allowance	<u><u>\$ 1,083,518</u></u>	<u><u>\$ 473,133</u></u>	<u><u>\$ 1,556,651</u></u>

NOTE 4 - RECEIVABLES

Amounts recorded as receivable as of September 30, 2004 are as follows:

	<u>General</u>
Receivable:	
Taxes	\$ 2,678,127
Emergency medical service fee	3,554,030
Other	30,383
Gross receivable	<u>6,262,540</u>
Less: allowance for uncollectibles	<u>(3,048,028)</u>
Net total receivable	<u><u>\$ 3,214,512</u></u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 5 – DEFERRED REVENUES

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent property taxes receivable	\$ 1,556,651	\$	\$ 1,556,651
Other		27,367	27,367
Total deferred/unearned revenue	<u>\$ 1,556,651</u>	<u>\$ 27,367</u>	<u>\$ 1,584,018</u>

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2004 was as follows:

Governmental activities:	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 165,683	\$	\$	\$ 165,683
Total capital assets, not being depreciated	165,683			165,683
Capital assets, being depreciated:				
Building	5,627,074	4,047	(5,260,820)	370,301
Equipment	6,881,133	230,729	(6,872)	7,104,990
Vehicles	4,365,124	521,250	(924,126)	3,962,248
Communication system	6,111,383	173,228		6,284,611
Total capital assets, being depreciated	<u>22,984,714</u>	<u>929,254</u>	<u>(6,191,818)</u>	<u>17,722,150</u>
Less accumulated depreciation for:				
Building	(767,263)	(127,927)	683,907	(211,283)
Equipment	(4,206,959)	(477,859)	1,374	(4,683,444)
Vehicles	(2,846,066)	(528,736)	731,634	(2,643,168)
Communication system	(4,426,529)	(557,620)		(4,984,149)
Total accumulated depreciation	<u>(12,246,817)</u>	<u>(1,692,142)</u>	<u>1,416,915</u>	<u>(12,522,044)</u>
Total capital assets, being depreciated, net	10,737,897	(762,888)	(4,774,903)	5,200,106
Governmental activities capital assets, net	<u>\$ 10,903,580</u>	<u>\$ (762,888)</u>	<u>\$ (4,774,903)</u>	<u>\$ 5,365,789</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 6 – CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs for the fiscal year 2004 as follows:

Governmental activities:	
Administration	\$ 130,731
Healthcare assistance	81,347
Emergency medical services	855,955
Radio systems	343,346
Information systems	280,763
	<u>\$ 1,692,142</u>

NOTE 7 - LONG-TERM DEBT

Changes in Long-term Liabilities

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Notes Payable:					
To a bank					
Taxable	\$ 1,963,346	\$	\$ (1,963,346)	\$	\$
Non-taxable	1,231,852		(1,231,852)		
Compensated absences	258,718	525,216	(518,149)	265,785	7,973
Governmental activity					
Long-term liabilities	<u>\$ 3,453,916</u>	<u>\$ 525,216</u>	<u>\$ (3,713,347)</u>	<u>\$ 265,785</u>	<u>\$ 7,973</u>

Notes Payable

MCHDPFC entered into a loan agreement for the purchase of the building at 200 River Pointe in Conroe Texas. The District subsequently entered into a lease agreement with MCHDPFC for the building, which includes an option to purchase. This obligation was recorded as Notes Payable. During 2004 the building was sold and all related debt was retired.

Total interest cost incurred during 2004 totaled \$37,701.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 8 – FUND BALANCE

Reserved Fund Balance

The District records fund balance reserves to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures. The following is a list of fund balance reserves recognized by the District and a description of each:

Reserved for Encumbrances

Represents commitments related to unperformed contracts for services and undelivered goods.

Reserved for Inventories

To indicate that inventory, which will be charged to future periods, does not represent expendable resources.

Reserved for Prepaid Expenditures

To indicate that prepaid expenditures, which will be charged to future periods, do not represent expendable resources.

NOTE 9 – DEFERRED COMPENSATION PLAN

The District provides a Deferred Compensation Plan (the “Plan”) covering current and former District employees who elected to contribute to the Plan prior to March 1, 1998. The Plan allowed for employees to contribute up to a set limit per year, but it does not provide for employer contributions. Plan assets of \$237,689 at September 30, 2004, recorded in the fiduciary fund are restricted. The Plan assets remain the property of the District subject only to the claims of the District’s general creditors until such time the funds are made available to the participants or other beneficiaries.

NOTE 10 – RETIREMENT PLAN

The District also provides an employee 457 Deferred Compensation Plan covering all District employees. In addition, the District adopted an employer-matching plan under IRC Section 401(a). This plan requires the District to contribute \$0.50 for each \$1.00 an eligible employee defers in the 457 Plan up to a maximum of 8% of employee compensation. All full time employees are eligible to participate in the plan provided they have completed 120 days of service. Employees become fully vested in the retirement plan after five years of service.

The District contributed a total of \$148,051 to the plan in the fiscal year ending September 30, 2004.

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Litigation

The District is a defendant in a number of lawsuits rising principally from claims against the District by various claimants. Total damages claimed are not substantial and the District’s attorney(s) estimate the potential claims will be substantially covered by insurance and hence would not materially affect the financial condition of the District.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
September 30, 2004

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES (continued)

Litigation (continued)

The District was a defendant in a 1997 federal whistleblower action filed in the United States District Court for the Southern District. The case styled Ronald Campbell & Dan Rice v. Montgomery County Hospital District and Montgomery County Healthcare Foundation, Civil Action No. H-97-3502, In the United States District Court for the Southern District of Texas, was dismissed during fiscal year 2004, with no assessment of damages, costs, attorneys' fees or other monetary penalties against the District or the Montgomery County Healthcare Foundation. No appeal to the dismissal of this action was taken.

NOTE 12 – HEALTHCARE ASSISTANCE PROGRAM

The healthcare assistance program was established by the District to provide health care services to the indigent residents of Montgomery County. The District entered into contracts with various healthcare providers to provide healthcare services to Montgomery County indigents. Qualifications for the program are based on income level, citizenship, county residency, medical need and financial resources. In conjunction with the sale of the Medical Center Hospital in Conroe (now Conroe Regional Medical Center) to Health Trust on May 26, 1993, the District entered into an Indigent Care Agreement with Health Trust and its' successors. The Indigent Care Agreement was amended in 2000. Provisions of the agreement include providing medical care to qualified indigents of Montgomery County at discounted rates which are subject to annual increases. The District's obligation under this agreement is limited to a maximum annual payment, which is increased 2.4% annually. The maximum annual payment for the plan year ended May 31, 2004 was approximately \$8.2 million. The terms of the Indigent Care Agreement ends on May 31, 2008.

NOTE 13 – SALE OF BUILDING

Effective April 8, 2004, the District sold the building at 200 River Pointe for \$4,150,000. Proceeds from the sale were used to retire the related notes payable, accrued interest and other related costs. As part of the sale agreement, the District entered into a two-year lease for occupancy of a portion of the building for its administrative office. The lease obligation is approximately \$231,000 per year.

REQUIRED SUPPLEMENTAL INFORMATION

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL - GENERAL FUND**
For the year ended September 30, 2004

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 19,577,295	\$ 19,577,295	\$ 20,004,607	\$ 427,312
Program revenues	6,182,670	6,187,670	5,609,822	(577,848)
Tenant revenue	606,000	302,177	302,176	(1)
Investment earnings			154,687	154,687
Miscellaneous	50,162	50,162	68,080	17,918
Total revenues	<u>26,416,127</u>	<u>26,117,304</u>	<u>26,139,372</u>	<u>22,068</u>
EXPENDITURES				
Current:				
Administration	2,853,931	2,741,886	2,340,131	401,755
Healthcare assistance	11,936,290	11,990,456	10,932,645	1,057,811
Emergency medical services	10,632,122	10,676,149	10,257,558	418,591
Radio systems	603,320	703,522	672,710	30,812
Information systems	360,062	409,426	342,763	66,663
Total Expenditures	<u>26,385,725</u>	<u>26,521,439</u>	<u>24,545,807</u>	<u>1,975,632</u>
Excess (deficiency) of revenues over expenditures	<u>30,402</u>	<u>(404,135)</u>	<u>1,593,565</u>	<u>1,997,700</u>
OTHER FINANCING SOURCES (USES)				
Tobacco settlement		442,222	442,222	
Other sources			226,887	226,887
Total other financing sources and uses		<u>442,222</u>	<u>669,109</u>	<u>226,887</u>
SPECIAL ITEM				
Proceeds from sale of building		1,001,902	1,001,902	
Net change in fund balances	30,402	1,039,989	3,264,576	2,224,587
Fund balances - beginning	8,502,176	8,502,176	8,502,176	
Fund balances - ending	<u>\$ 8,532,578</u>	<u>\$ 9,542,165</u>	<u>\$ 11,766,752</u>	<u>\$ 2,224,587</u>