

**MONTGOMERY COUNTY
HOSPITAL DISTRICT**

AUDITED FINANCIAL STATEMENTS

Year Ended September 30, 2006

**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, 2006, 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's 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, 2006, 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.

The management's discussion and analysis on pages 3 through 13, and the budgetary comparison information on page 41, 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
May 23, 2007

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MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

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, 2006. 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 14.9% for fiscal year 2006 from \$.0999 per \$100 value in 2005 to \$.085 per \$100 value in 2006. Total assessed valuation increased by 10.5% from \$19.0 billion in 2005 to \$21.0 billion in 2006.
- The assets of the District exceeded its liabilities at September 30, 2006 by \$32,538,793 (net assets). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net assets also reflect \$4,316,568 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 \$28,222,225 (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 \$29,662,817 and expenses were \$21,078,897 resulting in an increase in total net assets of \$8,583,920.
- In contrast to the government-wide statements, the District's governmental funds reported combined ending balances at September 30, 2006 of \$27,282,782, an increase of \$9,069,176 from the prior year. Approximately 97.0% of the ending balance, \$26,455,272, is available for spending at the District's discretion.
- At September 30, 2006, unreserved fund balance for the General Fund was \$18,951,674 or 90.8% 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. 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.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

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), which is an instrumentality of the District and for which the District is financially accountable. MCHF is legally separate from the District and is governed by its own separate board of directors. MCHF is considered a blended component unit of the District as defined by GASB.

The government-wide financial statements can be found on pages 17-19 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 basis 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 is considered a blended component unit of the District and has been included in the financial statements of the District.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

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 21-24 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 25 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 27-38 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 41 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 \$32,538,793, at September 30, 2006, as shown in the table below.

Montgomery County Hospital District Net Assets - Government Activities At September 30, 2006

	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 30,579,328	\$ 20,778,774
Capital assets	4,343,307	4,592,391
Total assets	<u>34,922,635</u>	<u>25,371,165</u>
Current liabilities	2,049,464	1,134,112
Long-term liabilities	334,378	282,180
Total liabilities	<u>2,383,842</u>	<u>1,416,292</u>
Net assets:		
Invested in capital assets, net of related debt	4,316,568	4,592,391
Unrestricted	28,222,225	19,362,482
Total net assets	<u>\$ 32,538,793</u>	<u>\$ 23,954,873</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

The District's total assets of \$34,922,635 are largely comprised of investments of \$25,582,812, or 73.3%, and capital assets net of accumulated depreciation of \$4,343,307, or 12.4 %. 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 depreciation expense of \$1,177,516.

Current liabilities of \$2,049,464, or 86.0%, are the largest portion of the District's total liabilities of \$2,383,842. A more in-depth description of liabilities can be found in the notes to the financial statements.

At September 30, 2006, the District's assets exceeded its liabilities by \$32,538,793. Investment in capital assets net of related debt represents \$4,316,568, or 13.3% of total net assets. The remaining \$28,222,225, or 86.7%, is unrestricted net assets. Unrestricted net assets have increased over last year by \$8,859,743.

The District's governmental activities increased net assets by \$8,583,920. The key components of this increase are as follows:

**Montgomery County Hospital District
Government Activities
For the Year Ended September 30, 2006**

	2006	2005
Revenues:		
Program revenues:		
Administration	\$ 886,199	\$ 712,310
Healthcare assistance	227,465	13,124
Emergency medical services	8,258,254	6,670,259
Radio systems	565,083	429,954
General revenues:		
Property taxes	18,558,389	19,840,079
Unrestricted investment earnings	1,167,427	474,395
Total revenues	29,662,817	28,140,121
 Expenses:		
Administration	2,141,985	1,773,019
Healthcare assistance	4,905,308	8,049,493
Emergency medical services	13,015,430	11,835,230
Radio systems	873,488	723,622
Information systems	142,686	336,458
Total expenses	21,078,897	22,717,822
 Change in net assets	8,583,920	5,422,299
Net assets - beginning	23,954,873	18,423,405
Prior period adjustments		109,169
Net assets - ending	\$ 32,538,793	\$ 23,954,873

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

The District's total revenues of \$29,662,817 were all from governmental activities. Property tax revenue accounts for \$18,558,389 or 62.6%, emergency medical services revenue accounts for \$8,258,254, or 27.8% and administration revenue totaled \$886,199, or 3.0%, of total government-wide revenues. Total revenues increased by \$1,522,696 over last year.

Total expenses, for the year ended September 30, 2006, amounted to \$21,078,897. Healthcare assistance accounted for \$4,905,308, or 23.3% while emergency medical services accounted for \$13,015,430, or 61.7% of total government-wide expenses. Total expenses decreased by \$1,638,925 over last year. Healthcare assistance expenses decreased by \$3,144,185. 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 \$32,538,793 represents an increase of \$8,583,920 over last year's net assets of \$23,954,873. 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, 2006

	<u>2006</u>	<u>2005</u>
Governmental funds activity:		
Total revenues	\$ 29,060,822	\$ 27,621,347
Total expenditures	<u>20,880,882</u>	<u>21,940,030</u>
Revenues over expenditures	8,179,940	5,681,317
Proceeds from tobacco settlement	836,569	644,366
Proceeds from other sources	52,667	12,000
Proceeds from sale of capital assets	-	-
Net change in fund balance	<u>9,069,176</u>	<u>6,337,683</u>
Government-wide activity:		
Difference between current year capital outlay expenditures and depreciation expense	(282,757)	(773,398)
Revenues not reported in funds because they do not provide current period financial resources	(184,627)	(125,592)
Difference between long-term debt proceeds and repayments	9,239	-
Expenses not reported in the funds because they do not use current period financial resources	(27,111)	(16,394)
Total change in net assets	<u>\$ 8,583,920</u>	<u>\$ 5,422,299</u>

The change in net assets is the difference between governmental revenues and expenditures, (\$8,179,940) plus other financing sources, (\$889,236). Other items affecting the change in net assets include the difference between capital additions and depreciation expense, (\$282,757), and revenue and expenses that do not provide or require the use of current financial resources, (\$202,499).

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

The following table summarizes expenses and program revenues for the year ended September 30, 2006.

**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	\$ 2,141,985	\$ 886,199	\$ (1,255,786)
Healthcare assistance	4,905,308	227,465	(4,677,843)
Emergency medical services	13,015,430	8,258,254	(4,757,176)
Radio systems	873,488	565,083	(308,405)
Information services	142,686	-	(142,686)
Program totals	<u>21,078,897</u>	<u>9,937,001</u>	<u>(11,141,896)</u>
General revenues:			
Property taxes	-	18,558,389	18,558,389
Unrestricted investment earnings	-	1,167,427	1,167,427
Totals	<u>\$ 21,078,897</u>	<u>\$ 29,662,817</u>	<u>\$ 8,583,920</u>

Program revenues, for the year ended September 30, 2006, amounted to \$9,937,001, or 33.5% of total revenue. Revenue from emergency medical services totaled \$8,258,254, or 83.1%, and administration totaled \$886,199, or 8.9%, of program revenue.

The following table depicts revenues for the year ended September 30, 2006.

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

Revenues:	<u>Amount</u>	<u>Percent</u>
Property taxes	\$ 18,558,389	62.6%
Program revenue	9,937,001	33.5%
Investment earnings	1,167,427	3.9%
Total revenues	<u>\$ 29,662,817</u>	<u>100.0%</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

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, 2006, the District's governmental funds reported combined ending fund balances of \$27,282,782, an increase of \$9,069,176 from prior year. The majority, approximately 97.0%, of the fund balance, \$26,455,272, 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 (\$457,318), 2) to encumbrances (\$120,176), 3) to prepaid items (\$78,383) or 4) for a variety of other restricted purposes (\$171,633).

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 \$18,951,674, while total fund balance reached \$19,779,184. 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 90.8% of total general fund expenditures, while total fund balance represents 94.7% of that same amount.

MONTGOMERY COUNTY HOSPITAL DISTRICT*Management's Discussion and Analysis**September 30, 2006***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, 2006**

	Original Budget	Final Budget	Variance with Original Budget Positive (Negative)
Revenues:			
Program:			
Property taxes	\$ 18,504,791	\$ 18,504,791	\$
Program revenues	7,997,503	8,178,077	180,574
Investment earnings	150,000	150,000	
Miscellaneous	85,062	85,062	
Total revenues	<u>26,737,356</u>	<u>26,917,930</u>	<u>180,574</u>
Expenditures:			
Administration	2,079,533	2,208,336	(128,803)
Healthcare assistance	11,198,973	11,174,123	24,850
Emergency medical services	12,068,777	12,072,931	(4,154)
Radio systems	667,900	753,451	(85,551)
Information systems	257,175	260,680	(3,505)
Capital outlay	562,922	852,125	(289,203)
Total expenditures	<u>26,835,280</u>	<u>27,321,646</u>	<u>(486,366)</u>
Excess (deficiency) revenues over expenditures	<u>(97,924)</u>	<u>(403,716)</u>	<u>(305,792)</u>
Other financing sources:			
Tobacco settlement	400,000	642,200	242,200
Total other financing sources and uses	<u>400,000</u>	<u>642,200</u>	<u>242,200</u>
Net change in fund balances	302,076	238,484	(63,592)
Fund balance - beginning	11,047,395	11,047,395	
Fund balance - ending	<u>\$ 11,349,471</u>	<u>\$ 11,285,879</u>	<u>\$ (63,592)</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT*Management's Discussion and Analysis**September 30, 2006*

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, 2006.

**Montgomery County Hospital District
Budget Variance
Year Ended September 30, 2006**

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Program:			
Property taxes	\$ 18,504,791	\$ 18,742,363	\$ 237,572
Program revenues	8,178,077	8,927,891	749,814
Intergovernmental		114,811	114,811
Investment earnings	150,000	828,130	678,130
Miscellaneous	85,062	108,330	23,268
Total revenues	<u>26,917,930</u>	<u>28,721,525</u>	<u>1,803,595</u>
Expenditures:			
Administration	2,208,336	2,097,793	110,543
Healthcare assistance	11,174,123	4,930,474	6,243,649
Emergency medical services	12,072,931	11,983,398	89,533
Radio systems	753,451	735,392	18,059
Information systems	260,680	260,543	137
Capital outlay	852,125	871,372	(19,247)
Total expenditures	<u>27,321,646</u>	<u>20,878,972</u>	<u>6,442,674</u>
Excess (deficiency) revenues over expenditures	<u>(403,716)</u>	<u>7,842,553</u>	<u>8,246,269</u>
Other financing sources:			
Tobacco settlement	642,200	836,569	194,369
Other sources	-	52,667	52,667
Total other financing sources	<u>642,200</u>	<u>889,236</u>	<u>247,036</u>
Net change in fund balance	238,484	8,731,789	8,493,305
Fund balance - beginning	11,047,395	11,047,395	
Fund balance - ending	<u>\$ 11,285,879</u>	<u>\$ 19,779,184</u>	<u>\$ 8,493,305</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of September 30, 2006, amounts to \$4,343,307 (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:

- Computers, software, networking and other equipment was purchased at a cost of \$590,622.
- Increases in assets were offset by depreciation expense of \$1,177,516.

**Montgomery County Hospital District
Capital Assets Net of Accumulated Depreciation**

	September 30,		Increase
	2006	2005	(Decrease)
Land	\$ 165,683	\$ 165,683	\$
Building	118,895	142,764	(23,869)
Equipment	2,492,840	2,360,184	132,656
Vehicles	805,510	921,190	(115,680)
Communication system	760,379	1,036,896	(276,517)
Total	<u>\$ 4,343,307</u>	<u>\$ 4,626,717</u>	<u>\$ (283,410)</u>

Additional information on the District's capital assets can be found in Note 6 on pages 35-36 of this report.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2006

Long-term Debt

At September 30, 2006, the District had total long-term debt outstanding of \$334,378 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,	
	2006	2005
Capital leases	\$ 26,739	\$ 35,978
Compensated absences	307,639	282,180
Total	<u>\$ 334,378</u>	<u>\$ 318,158</u>

The District's total debt increased by \$16,220 (5.1%) during fiscal year 2006

Additional information on the District's long-term debt can be found in Note 7 on page 36 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Montgomery County is currently 4.4%, which is a decrease from the rate of 4.7% last year. This compares favorably to the State's average unemployment of 4.9% and the national average rate of 4.6%.
- The population of Montgomery County in 2006 was approximately 398,290, an increase of 5.1% from 2005.
- The estimated median household income for Montgomery County increased from \$53,326 in 2004 to \$59,623 in 2005 according to the U.S. Census Bureau.
- According to the U.S. Census Bureau, 11.7% of residents in Montgomery County were below the poverty level in 2005, compared to 9.6% in 2004.
- 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 \$14,352 and \$14,700 for fiscal 2005 and 2006, respectively. For a family of four, 150% of FPL amounted to \$29,028 and \$30,000 for fiscal 2005 and 2006, respectively.

All of these factors were considered in preparing the District's budget for the 2007 fiscal year.

During the 2006 fiscal year, fund balance in the general fund increased \$8,731,790. The District has reduced 2007 taxes from \$.085 to \$.0781 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***For the Year Ended September 30, 2006*

	Governmental Activities	Total
ASSETS		
Cash and equivalents	\$ 945,130	\$ 945,130
Temporary investments	25,582,812	25,582,812
Receivables, net	3,515,685	3,515,685
Inventories	457,318	457,318
Other assets	78,383	78,383
Capital assets (net of accumulated depreciation)		
Land	165,683	165,683
Buildings	118,895	118,895
Equipment	2,492,840	2,492,840
Vehicles	805,510	805,510
Communication system	760,379	760,379
Total capital assets	<u>4,343,307</u>	<u>4,343,307</u>
Total assets	<u>34,922,635</u>	<u>34,922,635</u>
LIABILITIES		
Accounts payable and accrued expenses	2,020,088	2,020,088
Deferred revenues	29,376	29,376
Long-term liabilities		
Due within one year		
Capital leases payable	9,658	9,658
Due in more than one year		
Capital leases payable	17,081	17,081
Compensated absences	307,639	307,639
Total liabilities	<u>2,383,842</u>	<u>2,383,842</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,316,568	4,316,568
Unrestricted	28,222,225	28,222,225
Total net assets	<u>\$ 32,538,793</u>	<u>\$ 32,538,793</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenue	
		Charges for Services	Operating Grants and Contributions
Primary government			
Governmental activities			
Administration	\$ 2,141,985	\$ 886,199	\$
Healthcare assistance	4,905,308	112,654	114,811
Emergency medical services	13,015,430	8,258,254	
Radio systems	873,488	565,083	
Information systems	142,686		
Total governmental activities	<u>\$ 21,078,897</u>	<u>\$ 9,822,190</u>	<u>114,811</u>
 Total primary government	 <u>21,078,897</u>	 <u>9,822,190</u>	 <u>114,811</u>
 General revenues:			
Taxes:			
Property taxes			
Unrestricted investment earnings			
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	Business-type Activities	Total
\$ (1,255,786)	\$.	\$ (1,255,786)
(4,677,843)		(4,677,843)
(4,757,176)		(4,757,176)
(308,405)		(308,405)
(142,686)		(142,686)
<u>(11,141,896)</u>		<u>(11,141,896)</u>
<u>(11,141,896)</u>		<u>(11,141,896)</u>
18,558,389		18,558,389
1,167,427		1,167,427
<u>19,725,816</u>		<u>19,725,816</u>
8,583,920		8,583,920
<u>23,954,873</u>		<u>23,954,873</u>
<u>\$ 32,538,793</u>	<u>\$</u>	<u>\$ 32,538,793</u>

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MONTGOMERY COUNTY HOSPITAL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

	<u>General Fund</u>	<u>Montgomery County Healthcare Foundation</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 945,084	\$ 46	\$ 945,130
Temporary investments	18,079,260	7,503,552	25,582,812
Receivables			
Taxes receivable, net	1,247,082		1,247,082
EMS receivable, net	1,987,135		1,987,135
Other receivables	281,468		281,468
Inventories	457,318		457,318
Prepaid expenses	78,383		78,383
Total assets	<u>\$ 23,075,730</u>	<u>\$ 7,503,598</u>	<u>\$ 30,579,328</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,020,088	\$	\$ 2,020,088
Deferred revenue	1,276,458		1,276,458
Total liabilities	<u>3,296,546</u>		<u>3,296,546</u>
Fund balances:			
Reserved for:			
Inventories	457,318		457,318
Encumbrances	120,176		120,176
Prepaid expenses	78,383		78,383
Other purposes	171,633		171,633
Unreserved	18,951,674	7,503,598	26,455,272
Total fund balances	<u>19,779,184</u>	<u>7,503,598</u>	<u>27,282,782</u>
Total liabilities and fund balances	<u>\$ 23,075,730</u>	<u>\$ 7,503,598</u>	<u>\$ 30,579,328</u>

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2006

Total fund balance, governmental funds	\$ 27,282,782
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.	4,343,307
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.	1,247,082
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:	
Notes payable	(26,739)
Compensated absences payable	(307,639)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 32,538,793</u>

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, 2006

	<u>General Fund</u>	<u>Montgomery County Healthcare Foundation</u>	<u>Total Governmental Funds</u>
REVENUES			
Property taxes	\$ 18,742,363	\$	\$ 18,742,363
Program	8,927,891		8,927,891
Intergovernmental	114,811		114,811
Investment earnings	828,130	339,297	1,167,427
Miscellaneous	108,330		108,330
Total revenues	<u>28,721,525</u>	<u>339,297</u>	<u>29,060,822</u>
EXPENDITURES			
Current:			
Administration	2,097,793	1,910	2,099,703
Healthcare assistance	4,930,474		4,930,474
Emergency medical services	11,983,398		11,983,398
Radio systems	735,392		735,392
Information systems	260,543		260,543
Capital outlay	871,372		871,372
Total expenditures	<u>20,878,972</u>	<u>1,910</u>	<u>20,880,882</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,842,553</u>	<u>337,387</u>	<u>8,179,940</u>
OTHER FINANCING SOURCES (USES)			
Tobacco settlement	836,569		836,569
Other sources	52,667		52,667
Total other financing sources and uses	<u>889,236</u>		<u>889,236</u>
Net change in fund balances	8,731,789	337,387	9,069,176
Fund balances - beginning of year	11,047,395	7,166,211	18,213,606
Fund balances - end of year	<u>\$ 19,779,184</u>	<u>\$ 7,503,598</u>	<u>\$ 27,282,782</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, 2006

Net change in fund balances - total governmental funds: \$ 9,069,176

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 depreciation exceeded capital outlays in the current period. (282,757)

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. (653)

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. (183,974)

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. 9,239

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. (27,111)

Change in net assets of governmental activities \$ 8,583,920

See Notes to Accompanying Financial Statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
STATEMENT OF NET ASSETS
FIDUCIARY FUND
For the Year Ended September 30, 2006

	Deferred Compensation Plan
ASSETS	
Cash and cash equivalents	\$ 246,746
Total assets	<u>\$ 246,746</u>
LIABILITIES	
Due to others	\$ 246,746
Total liabilities	<u>\$ 246,746</u>
NET ASSETS	
Held in trust for benefits and other purposes	<u>\$ -</u>

See Notes to Accompanying Financial Statements.

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MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

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) and Montgomery County Healthcare Foundation (MCHF). MCHF is legally separate from the District and is governed by their own separate board of directors. However, MCHF constitutes an instrumentality of the District and was formed to carry out specific governmental purposes on the District's behalf. MCHF is considered a blended component unit of the District as defined by GASB.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. 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 on all of the nonfiduciary activities of the primary government and its component unit. 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.

C. 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Revenues are recognized as soon as they are both measurable and available.

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.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted in another fund.

The *Montgomery County Healthcare Foundation* is a blended component unit of Montgomery County Health District. This fund is used to account for all activities of the MCHF.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus and basis of accounting

Additionally, the government reports the following fund type:

The *fiduciary fund* is used to account for assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. 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 \$63,597 in the General Fund.

E. 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.

F. 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.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. 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.

I. 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.

J. 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.

K. 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
For the Year Ended September 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. 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

M. 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

At September 30, 2006, cash and temporary investments consisted of the following:

	<u>Montgomery County Health District</u>	<u>Montgomery County Healthcare Foundation</u>	<u>Total</u>
Cash:			
Cash on deposit	\$ 942,214	\$ 46	\$ 942,260
Cash on hand	2,870		2,870
	<u>945,084</u>	<u>46</u>	<u>945,130</u>
Temporary investments:			
Public funds investment pools	<u>18,079,260</u>	<u>7,503,552</u>	<u>25,582,812</u>
Total cash and temporary investments	<u>\$ 19,024,344</u>	<u>\$ 7,503,598</u>	<u>\$ 26,527,942</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 2 - CASH AND TEMPORARY INVESTMENTS (continued)

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.

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting its investments to instruments whose maturities do not exceed one year from the time of purchase. As of September 30, 2006, the District had the following investment:

Investment Type	Fair Value	Weighted Average Maturity (Days)
Public funds investment pools:		
TexPool	\$ 25,582,812	1

MONTGOMERY COUNTY HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2006

NOTE 2 - CASH AND TEMPORARY INVESTMENTS (continued)

Concentration of credit risk. The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity and financial institutions to reduce risk of loss from over concentration of assets in specific class investments, specific maturity or specific user. In accordance with the District's policy, the District may meet its obligation to diversify by placing all or part of its investment portfolio in a public fund investment pool, if the Board authorizes the investment in the particular pool by resolution.

Credit risk. At year-end, balances in TexPool, a privately managed public funds investment pool, was rated AAAM by Standard & Poor's. All credit ratings met acceptable levels by legal guidelines in both the Public Funds Investment Act and the District's investment policy.

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. 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. 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.

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 \$0.085 per \$100 valuation. Taxes for fiscal year 2005 were levied on property within the District having an assessed valuation of \$21.0 billion.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 3 - PROPERTY TAXES (continued)

Property taxes and allowance for uncollectibles, as of September 30, 2006, are as follows:

<u>Year of Levy</u>	<u>Property Tax</u>	<u>Penalty & Interest</u>	<u>Total</u>
2005	\$ 325,461	\$ 65,092	\$ 390,553
2004	165,902	53,089	218,991
2003	130,633	57,479	188,112
2002	132,268	74,070	206,338
2001	95,874	65,194	161,068
2000	78,599	62,879	141,478
1999	39,651	36,479	76,130
1998	27,030	28,111	55,141
1997	21,952	25,465	47,417
1996	16,083	20,586	36,669
1995	15,399	21,559	36,958
1994	19,322	29,369	48,691
1993 and prior	235,153	486,371	721,524
	<u>1,303,327</u>	<u>1,025,743</u>	<u>2,329,070</u>
Less allowance	<u>(464,245)</u>	<u>(617,743)</u>	<u>(1,081,988)</u>
Receivable, net of allowance	<u>\$ 839,082</u>	<u>\$ 408,000</u>	<u>\$ 1,247,082</u>

NOTE 4 - RECEIVABLES

Amounts recorded as receivable, as of September 30, 2006, are as follows:

	<u>General</u>
Receivable:	
Taxes	2,329,068
Emergency medical service fee	6,020,554
Other	281,468
Gross receivable	<u>8,631,090</u>
Less: allowance for uncollectibles	<u>(5,115,407)</u>
Net total receivable	<u>\$ 3,515,683</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

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:

	Unavailable	Unearned	Total
Delinquent property taxes receivable	\$ 1,247,082	\$	\$ 1,247,082
Other		29,376	29,376
Total deferred/unearned revenue	<u>\$ 1,247,082</u>	<u>\$ 29,376</u>	<u>\$ 1,276,458</u>

NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2006 was as follows:

Governmental activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 165,683	\$	\$	\$ 165,683
Total capital assets, not being depreciated	<u>165,683</u>			<u>165,683</u>
Capital assets, being depreciated:				
Building	377,445			377,445
Equipment	7,477,863	590,663	(2,145)	8,066,381
Vehicles	3,906,002	299,581	(158,392)	4,047,191
Communication system	6,366,928	4,515	(11,852)	6,359,591
Total capital assets, being depreciated	<u>18,128,238</u>	<u>894,759</u>	<u>(172,389)</u>	<u>18,850,608</u>
Less accumulated depreciation for:				
Building	(234,681)	(23,869)		(258,550)
Equipment	(5,117,679)	(457,354)	1,492	(5,573,541)
Vehicles	(2,984,812)	(415,261)	158,392	(3,241,681)
Communication system	(5,330,032)	(281,032)	11,852	(5,599,212)
Total accumulated depreciation	<u>(13,667,204)</u>	<u>(1,177,516)</u>	<u>171,736</u>	<u>(14,672,984)</u>
Total capital assets, being depreciated, net	4,461,034	(282,757)	(653)	4,177,624
Governmental activities capital assets, net	<u>\$ 4,626,717</u>	<u>\$ (282,757)</u>	<u>\$ (653)</u>	<u>\$ 4,343,307</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 6 – CAPITAL ASSETS (continued)

Depreciation expense was charged to functions/programs for the fiscal year 2006 as follows:

Governmental activities:	
Administration	\$ 34,720
Healthcare assistance	21,306
Emergency medical services	858,055
Radio systems	187,850
Information systems	75,585
	<u>\$ 1,177,516</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:					
Capital leases	\$ 35,978	\$	\$ (9,238)	\$ 26,740	\$ 9,658
Compensated absences	282,180	517,961	(491,502)	308,639	
Governmental activity					
Long-term liabilities	<u>\$ 318,158</u>	<u>\$ 517,961</u>	<u>\$ (500,740)</u>	<u>\$ 335,379</u>	<u>\$ 9,658</u>

Capital Lease

The District has entered into a lease agreement for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The future debt service requirements on the capital lease as of September 30, 2006 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 9,658	\$ 995
2008	10,097	556
2009	6,985	117
	<u>\$ 26,740</u>	<u>\$ 1,668</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

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 \$251,471 at September 30, 2005, 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 \$256,709 to the Plan in the fiscal year ending September 30, 2006.

NOTE 11 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations of the hospital district. In the best judgment of management, the outcome of any legal proceedings will not have an adverse material effect on the accompanying financial statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

NOTE 12 – OPERATING LEASES

The District leases building and office facilities under an operating lease. Total costs for the lease was \$235,628 for the year ended September 30, 2006. The future minimum lease payments for the lease are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 315,027
2008	275,857
2009	160,732
	<u>\$ 751,616</u>

NOTE 13 – 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, 2006 was approximately \$8.6 million. The terms of the Indigent Care Agreement ends on May 31, 2008.

REQUIRED SUPPLEMENTAL INFORMATION

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MONTGOMERY COUNTY HOSPITAL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET TO ACTUAL - GENERAL FUND
For the year ended September 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 18,504,791	\$ 18,504,791	\$ 18,742,363	\$ 237,572
Program revenues	7,997,503	8,178,077	8,927,891	749,814
Intergovernmental			114,811	114,811
Investment earnings	150,000	150,000	828,130	678,130
Miscellaneous	85,062	85,062	108,330	23,268
Total revenues	<u>26,737,356</u>	<u>26,917,930</u>	<u>28,721,525</u>	<u>1,803,595</u>
EXPENDITURES				
Current:				
Administration	2,079,533	2,208,336	2,097,793	110,543
Healthcare assistance	11,198,973	11,174,123	4,930,474	6,243,649
Emergency medical services	12,068,777	12,072,931	11,983,398	89,533
Radio systems	667,900	753,451	735,392	18,059
Information systems	257,175	260,680	260,543	137
Capital Outlay	562,922	852,125	871,372	(19,247)
Total Expenditures	<u>26,835,280</u>	<u>27,321,646</u>	<u>20,878,972</u>	<u>6,442,674</u>
Excess (deficiency) of revenues over expenditures	<u>(97,924)</u>	<u>(403,716)</u>	<u>7,842,553</u>	<u>8,246,269</u>
OTHER FINANCING SOURCES (USES)				
Tobacco settlement	400,000	642,200	836,569	194,369
Other sources			52,667	52,667
Total other financing sources and uses	<u>400,000</u>	<u>642,200</u>	<u>889,236</u>	<u>247,036</u>
Net change in fund balances	302,076	238,484	8,731,789	8,493,305
Fund balances - beginning	<u>11,047,395</u>	<u>11,047,395</u>	<u>11,047,395</u>	
Fund balances - ending	<u>\$ 11,349,471</u>	<u>\$ 11,285,879</u>	<u>\$ 19,779,184</u>	<u>\$ 8,493,305</u>

