

*Financial Statements  
and Supplemental Schedule*

**Montgomery County Hospital District**

For the Year Ended September 30, 2009



**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**AUDITED FINANCIAL STATEMENTS**  
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### INDEPENDENT AUDITOR'S 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, 2009, 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Hereford, Lynch, Sellars & Kirkham, P.C.*  
**HEREFORD, LYNCH, SELLARS & KIRKHAM, P.C.**  
Certified Public Accountants

Conroe, Texas  
June 1, 2010

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**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

**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, 2009. 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 its property tax rate by 2.19% for fiscal year 2009 from \$.0777 per \$100 value in 2008 to \$.0760 per \$100 value in 2009. Total assessed valuation increased by 13.14% from \$27.4 billion in 2008 to \$31.0 billion in 2009.
- ◆ The assets of the District exceeded its liabilities at September 30, 2009 by \$43,455,422 (net assets). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net assets also reflect \$9,756,357 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 \$33,699,065 (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 \$38,312,009 while expenses and special items were \$37,422,141 resulting in an increase in total net assets of \$889,868.
- ◆ In contrast to the government-wide statements, the District's governmental fund reported an ending balance at September 30, 2009 of \$33,319,983, a decrease of \$1,634,203 from the prior year. Approximately 97.01% of the ending balance, \$32,324,993, is unrestricted.
- ◆ At year-end, the unreserved General Fund balance was 83.81% 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 required 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 can be found on pages 15-17 of this report.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

**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 report only inflows and outflows of expendable resources, as well as balances of available resources 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.

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 19-22 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 statements can be found on pages 23-24 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 25-35 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 38 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 \$43,455,422, at September 30, 2009, as shown in the table that follows.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

**Montgomery County Hospital District**  
**Net Assets – Governmental Activities**  
**At September 30, 2009**

	<b>2009</b>	<b>2008</b>
Current and other assets	\$ 37,552,246	\$ 38,113,950
Capital assets	9,756,357	7,083,587
Total assets	47,308,603	45,197,537
Current liabilities	3,272,362	2,005,599
Long-term liabilities	580,819	626,384
Total liabilities	3,853,181	2,631,983
Net assets:		
Invested in capital assets, net of related debt	9,756,357	7,076,602
Unrestricted	33,699,065	35,488,952
Total net assets	\$ 43,455,422	\$ 42,565,554

The District's total assets of \$47,308,603 are largely comprised of investments of \$30,316,124, or 64.08%, and capital assets net of accumulated depreciation of \$9,756,357, or 20.62 %. 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 increase in capital assets is primarily due to land, vehicles, equipment, and ongoing construction projects purchased by the District during the year.

Current liabilities of \$3,272,362, or 84.93%, are the largest portion of the District's total liabilities of \$3,853,181. A more in-depth description of liabilities can be found in the notes to the financial statements.

At September 30, 2009, the District's assets exceeded its liabilities by \$43,455,422. Investment in capital assets net of related debt represents \$9,756,357, or 22.45% of total net assets. The remaining \$33,699,065, or 77.55%, is unrestricted net assets. Unrestricted net assets have decreased over last year by \$1,789,887.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

The District's governmental activities increased net assets by \$889,868. Key components of this increase are as follows:

**Montgomery County Hospital District  
 Governmental Activities  
 For the Year Ended September 30, 2009**

	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Program revenues:		
Administration	\$ 1,101,735	\$ 1,134,328
Healthcare assistance	120,147	139,501
Emergency medical services	12,619,758	10,621,559
Facilities management and systems technology	271,895	528,591
General revenues:		
Property taxes	23,777,993	21,640,549
Unrestricted investment earnings	420,481	1,217,718
Total revenues	38,312,009	35,282,246
<b>Expenses:</b>		
Administration	3,142,954	2,631,279
Healthcare assistance	10,887,836	9,235,581
Emergency medical services	19,455,957	18,589,412
Facilities management and systems technology	2,365,910	1,737,661
Total expenses	35,852,657	32,193,933
<b>Special Items:</b>		
Early retirement and one-time retirement funding	(1,569,484)	-
Total special items	(1,569,484)	-
Change in net assets	889,868	3,088,313
Net assets - beginning	42,565,554	39,477,241
Net assets - ending	\$ 43,455,422	\$ 42,565,554

The District's total revenues of \$38,312,009 were all from governmental activities. Property tax revenue accounts for \$23,777,993, or 62.06%, emergency medical services revenue accounts for \$12,619,758, or 32.94%, and administration revenue totaled \$1,101,735, or 2.88%, of total government-wide revenues. Total revenues increased by \$3,029,763 over last year.

Total expenses, for the year ended September 30, 2009, amounted to \$35,852,657. Healthcare assistance accounted for \$10,887,836 or 30.37%, while emergency medical services accounted for \$19,455,957, or 54.27% of total government-wide expenses. Total expenses increased by \$3,658,724 over last year. Healthcare assistance expenses increased by \$1,652,255.

The District offered an early retirement package to several of its employees during the fiscal year, and also made a one-time payment into a retirement fund for long-serving emergency medical services employees during the year. These two items are infrequent in nature, and therefore have been classified as special items. Special items decreased net assets for the current year by \$1,569,484.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

The District's ending net assets of \$43,455,422 represents an increase of \$889,868 or 2.09% over last year's net assets of \$42,565,554. 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, 2009**

	<b>2009</b>	<b>2008</b>
<b>Governmental funds activity:</b>		
Total revenues	\$ 38,496,540	\$ 35,146,297
Total expenditures	38,571,248	34,438,041
Revenues over (under) expenditures	(74,708)	708,256
Proceeds from other sources	-	140,984
Proceeds from sale of capital assets	9,989	6,129
Special items	(1,569,484)	-
Net change in fund balance	(1,634,203)	855,369
<b>Government-wide activity:</b>		
Difference between current year capital outlay expenditures and depreciation expense	2,673,028	2,484,066
Revenues not reported in funds because they do not provide current period financial resources	(194,522)	(11,164)
Difference between long-term debt proceeds and repayments	6,985	10,097
Expenses not reported in the funds because they do not use current period financial resources	38,580	(250,055)
Total change in net assets	\$ 889,868	\$ 3,088,313

The change in net assets is the difference between governmental revenues and expenditures, (\$74,708), plus other financing sources and special items, (\$1,559,495). Other items affecting the change in net assets include the difference between capital additions and depreciation expense, \$2,673,028, and revenues and expenses that do not provide or require the use of current financial resources, (\$148,957).

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

The following table summarizes expenses and program revenues for the year ended September 30, 2009.

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

	Expenses	Program Revenue	Net (Expense) Revenue
<b>Program:</b>			
Administration	\$ 3,142,954	\$ 1,101,735	\$ (2,041,219)
Healthcare assistance	10,887,836	120,147	(10,767,689)
Emergency medical services	19,455,957	12,619,758	(6,836,199)
Facilities management and systems technology	2,365,910	271,895	(2,094,015)
Program totals	35,852,657	14,113,535	(21,739,122)
<b>General revenues:</b>			
Property taxes	-	23,777,993	23,777,993
Unrestricted investment earnings	-	420,481	420,481
Totals	\$ 35,852,657	\$ 38,312,009	\$ 2,459,352

Program revenues, for the year ended September 30, 2009, amounted to \$14,113,535, or 36.84% of total revenue. Revenue from emergency medical services totaled \$12,619,758, or 32.94%, and administration totaled \$1,101,735, or 2.88%, of program revenue.

The following table depicts revenues for the year ended September 30, 2009.

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

<b>Revenues:</b>	Amount	Percent
Property taxes	\$ 23,777,993	62.1%
Program revenue	14,113,535	36.8%
Investment earnings	420,481	1.1%
Total revenues	\$ 38,312,009	100.0%

**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 useable resources.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

At September 30, 2009, the District's governmental fund reported an ending fund balance of \$33,319,983, a decrease of \$1,634,203 from prior year. The majority, approximately 97.01%, of the fund balance, \$32,324,993, 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 (\$691,259), 2) to prepaid items (\$113,149) or 3) for a variety of other restricted purposes (\$190,582).

The general fund is the chief operating fund of the District. At the end of the fiscal year, the unreserved fund balance of the general fund was \$32,324,993, while the total fund balance reached \$33,319,983. 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 83.81% of total general fund expenditures, while total fund balance represents 86.39% of that same amount.

**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, 2009**

	Original Budget	Final Budget	Variance with Original Budget Positive (Negative)
<b>Revenues:</b>			
Program:			
Property taxes	\$ 23,758,747	\$ 23,821,882	\$ 63,135
Program revenues	10,910,684	11,055,059	144,375
Investment earnings	1,253,230	1,253,230	-
Miscellaneous	89,712	89,712	-
Tobacco settlement	800,000	800,000	-
Total revenues	<u>36,812,373</u>	<u>37,019,883</u>	<u>207,510</u>
 <b>Expenditures:</b>			
Administration	3,348,947	3,381,947	33,000
Healthcare assistance	9,341,848	11,341,848	2,000,000
Emergency medical services	19,963,935	19,940,752	(23,183)
Facilities management and systems technology	1,921,227	1,966,027	44,800
Capital outlay	1,593,785	2,153,778	559,993
Total expenditures	<u>36,169,742</u>	<u>38,784,352</u>	<u>2,614,610</u>
Excess (deficiency) revenues over expenditures	<u>642,631</u>	<u>(1,764,469)</u>	<u>(2,407,100)</u>
Net change in fund balances	642,631	(1,764,469)	(2,407,100)
Fund balance - beginning	34,954,186	34,954,186	-
Fund balance - ending	<u>\$ 35,596,817</u>	<u>\$ 33,189,717</u>	<u>\$ (2,407,100)</u>

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

The following table represents the differences between the final amended budget and the actual expenditures for the General Fund for the year ended September 30, 2009.

**Montgomery County Hospital District**  
**Budget Variance**  
**Year Ended September 30, 2009**

	Final Budget	Actual	Variance with Original Budget Positive (Negative)
<b>Revenues:</b>			
<b>Program:</b>			
Property taxes	\$ 23,821,882	\$ 23,972,257	\$ 150,375
Program revenues	11,055,059	12,956,067	1,901,008
Investment earnings	1,253,230	420,481	(832,749)
Miscellaneous	89,712	92,690	2,978
Tobacco settlement	800,000	1,055,045	255,045
Total revenues	<u>37,019,883</u>	<u>38,496,540</u>	<u>1,476,657</u>
<b>Expenditures:</b>			
Administration	3,381,947	3,115,192	266,755
Healthcare assistance	11,341,848	10,876,455	465,393
Emergency medical services	19,940,752	18,558,639	1,382,113
Facilities management and systems technology	1,966,027	1,824,042	141,985
Capital outlay	2,153,778	4,196,920	(2,043,142)
Total expenditures	<u>38,784,352</u>	<u>38,571,248</u>	<u>213,104</u>
Excess (deficiency) revenues over expenditures	<u>(1,764,469)</u>	<u>(74,708)</u>	<u>1,689,761</u>
<b>Other financing sources:</b>			
Proceeds from sales of fixed assets	-	9,989	9,989
Total other financing sources and uses	<u>-</u>	<u>9,989</u>	<u>9,989</u>
<b>Special items:</b>			
Early retirement & special retirement funding	-	(1,569,484)	(1,569,484)
Total special items	<u>-</u>	<u>(1,569,484)</u>	<u>(1,569,484)</u>
Net change in fund balances	(1,764,469)	(1,634,203)	130,266
Fund balance - beginning	34,954,186	34,954,186	-
Fund balance - ending	<u>\$ 33,189,717</u>	<u>\$ 33,319,983</u>	<u>\$ 130,266</u>

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*Management's Discussion and Analysis*

**Capital Assets and Debt Administration**

**Capital Assets**

The District's investment in capital assets for its governmental activities as of September 30, 2009, amounts to \$9,756,357 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and communication systems.

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

- ◆ The beginning phases of construction were begun on a regional EMS substation and an administration building and support services center.
- ◆ Computers, software, networking and other equipment were purchased at a cost of \$1,247,738.
- ◆ Vehicles were purchased at a cost of \$1,183,897.
- ◆ Increases in assets were offset by depreciation expense of \$1,570,175.

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

	September 30,		Increase (Decrease)
	2009	2008	
Land	\$ 1,903,626	\$ 1,497,571	\$ 406,055
Construction in progress	968,809	-	968,809
Building	371,118	228,361	142,757
Equipment	4,004,199	3,794,361	209,838
Vehicles	1,881,275	1,051,428	829,847
Communication system	627,330	511,866	115,464
Total	<u>\$ 9,756,357</u>	<u>\$ 7,083,587</u>	<u>\$ 2,672,770</u>

Additional information on the District's capital assets can be found in Note 6 on page 31 of this report.

**Long-term Debt**

At September 30, 2009, the District had total outstanding long-term debt in the amount of \$580,819, all of which was related to compensated absences. The following table summarizes the District's long-term debt.

**Montgomery County Hospital District  
 Governmental Activities  
 Outstanding Long-Term Debt**

	September 30,	
	2009	2008
Capital leases	\$ -	\$ 6,985
Compensated absences	580,819	619,399
Total	<u>\$ 580,819</u>	<u>\$ 626,384</u>

## MONTGOMERY COUNTY HOSPITAL DISTRICT

### *Management's Discussion and Analysis*

The District's total debt decreased by \$45,565 (7.27%) during the 2009 fiscal year. Additional information on the District's long-term debt can be found in Note 7 on page 32 of this report.

#### **Economic Factors and Next Year's Budgets and Rates**

- ◆ The unemployment rate for Montgomery County is currently 7.6%, which is an increase from the rate of 4.6% last year. This compares favorably to the State's average unemployment of 7.6% and the national average rate of 9.4%.
- ◆ The population of Montgomery County in 2009 was approximately 447,718, an increase of 3.9% from 2008.
- ◆ The estimated median household income for Montgomery County increased from \$63,550 in 2008 to \$65,801 in 2009, according to the U.S. Census Bureau.
- ◆ According to the U.S. Census Bureau, 10.4% of residents in Montgomery County were below the poverty level in 2009, compared to 9.8% in 2008.
- ◆ 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 \$15,600 and \$16,248 for fiscal years 2008 and 2009, respectively. For a family of four, 150% of FPL amounted to \$31,800 and \$33,084 for fiscal years 2008 and 2009, respectively.

All of these factors were considered in preparing the District's budget for the 2010 fiscal year.

During the 2009 fiscal year, fund balance in the general fund decreased \$1,634,203. The District has reduced 2009 taxes from \$0.0760 to \$0.0755 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 financial status. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to the Montgomery County Hospital District, P.O. Box 478, Conroe, Texas 77305.

**BASIC FINANCIAL STATEMENTS**

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**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**STATEMENT OF NET ASSETS**  
*September 30, 2009*

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 903,818
Temporary investments	30,316,124
Receivables, net	5,527,896
Inventories	691,259
Other assets	113,149
Capital assets (net of accumulated depreciation)	
Land	1,903,626
Construction in progress	968,809
Buildings	371,118
Equipment	4,004,199
Vehicles	1,881,275
Communication system	627,330
Total capital assets	<u>9,756,357</u>
Total assets	<u>\$ 47,308,603</u>
 <b>LIABILITIES</b>	
Accounts payable and accrued expenses	3,197,362
Deferred revenues	75,000
Long-term liabilities	
Due in more than one year	
Compensated absences	580,819
Total liabilities	<u>3,853,181</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,756,357
Unrestricted	33,699,065
Total net assets	<u>\$ 43,455,422</u>

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2009*

<b>Functions/Programs</b>	<u>Expenses</u>	<b>Program Revenue</b>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government</b>			
Governmental activities			
Administration	\$ 3,142,954	\$ 1,101,735	\$ -
Healthcare assistance	10,887,836	120,147	-
Emergency medical services	19,455,957	12,619,758	-
Facilities management and systems technology	2,365,910	271,895	-
Total governmental activities	\$ 35,852,657	\$ 14,113,535	\$ -

**General Revenues:**

Taxes:  
    Property taxes  
    Unrestricted investment earnings  
    Total general revenues

**Special Items:**

Early retirement and one-time retirement funding  
    Total special items

Change in net assets

Net assets - beginning

Net assets - ending

The accompanying notes are an integral part of the basic financial statements.

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

<b>Governmental Activities</b>	<b>Total</b>
\$ (2,041,219)	\$ (2,041,219)
(10,767,689)	(10,767,689)
(6,836,199)	(6,836,199)
(2,094,015)	(2,094,015)
<u>\$ (21,739,122)</u>	<u>\$ (21,739,122)</u>
23,777,993	23,777,993
420,481	420,481
<u>24,198,474</u>	<u>24,198,474</u>
(1,569,484)	(1,569,484)
889,868	889,868
<u>42,565,554</u>	<u>42,565,554</u>
<u>\$ 43,455,422</u>	<u>\$ 43,455,422</u>

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**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2009

	<b>General Fund</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 903,818
Temporary investments	30,316,124
Receivables	
Taxes receivable, net	1,041,707
EMS receivables, net	3,971,187
Other receivables	515,002
Inventories	691,259
Prepaid expenses	87,473
Total assets	37,526,570
 <b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable and accrued liabilities	3,197,362
Deferred revenue	1,034,901
Total liabilities	4,232,263
 Fund balances	
Reserved for:	
Inventories	691,259
Prepaid expenses	87,473
Other purposes	190,582
Unreserved	32,324,993
Total fund balances	33,294,307
Total liabilities and fund balances	\$ 37,526,570

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
*September 30, 2009*

Total fund balance, governmental funds	\$	33,294,307
--	----	------------

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.		9,756,357
---	--	-----------

Certain taxes receivable are not available to pay current period expenditures and, therefore, are deferred in this fund financial statement, but are not deferred in the governmental activities of the Statement of Net Assets.		959,901
--	--	---------

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. Such liabilities in the current year relate entirely to compensated absences payable.		<u>(580,819)</u>
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Net Assets of Governmental Activities in the Statement of Net Assets	\$	<u><u>43,429,746</u></u>
--	----	--------------------------

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2009*

	<b>General Fund</b>
<b>REVENUES</b>	
Property taxes	\$ 23,972,257
Program	12,956,067
Investment earnings	420,481
Miscellaneous	92,690
Tobacco settlement	1,055,045
Total revenues	38,496,540
<b>EXPENDITURES</b>	
Current:	
Administration	3,115,192
Healthcare assistance	10,876,455
Emergency medical services	18,558,639
Facilities management and systems technology	1,824,042
Capital outlay	4,196,920
Total expenditures	38,571,248
Excess (deficiency) of revenues over (under) expenditures	(74,708)
<b>OTHER FINANCING SOURCES (USES)</b>	
Proceeds from the sale of assets	9,989
Total other financing sources and uses	9,989
<b>SPECIAL ITEMS</b>	
Early retirement and one-time retirement funding	(1,569,484)
Total special items	(1,569,484)
Net change in fund balances	(1,634,203)
Fund balances - beginning of year	34,928,510
Fund balances - end of year	\$ 33,294,307

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2009*

Net change in fund balances - total governmental funds: \$ (1,634,203)

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 exceed depreciation expense in the current period. 2,673,028

Governmental funds report the entire net sales price (proceeds) from the 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 undepreciated cost of the assets sold. (258)

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. (194,264)

Governmental funds report repayment of capital lease payments 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. 6,985

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. 38,580

Change in net assets of governmental activities \$ 889,868

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
*September 30, 2009*

	<b>Deferred Compensation Plan</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 159,593
Total assets	159,593
 <b>LIABILITIES</b>	
Due to others	159,593
Total liabilities	159,593
 <b>NET ASSETS</b>	-
Held in trust for benefits and other purposes	\$ -

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
*September 30, 2009*

**ADDITIONS**

Contributions:

Employer	\$ -
Plan members	-
Private donations	-
Total contributions	-

Investment earnings:

Interest	8,642
Net increase (decrease) in the fair value of investments	(82)
Total investment earnings	8,560
Less investment expense	
Net investment earnings	8,560
Total additions	8,560

**DEDUCTIONS**

Benefits	-
Refunds of contributions	-
Administrative expenses	-
Educational outreach	-
Total deductions	-
Change in net assets	8,560

Net assets - beginning	151,033
Net assets - ending	\$ 159,593

The accompanying notes are an integral part of the basic financial statements.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*  
September 30, 2009

**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 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 the county residents. In addition to indigent care, the District provides 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 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. Additionally prescribed criteria under GAAP include considerations pertaining to other 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. Based on these considerations, the District has no component units.

**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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 of 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, 2009

**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 fund:

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.

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.

Accounts 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; however, capital expenditures were higher than budgeted amounts for the current fiscal year. During the year, the District began construction on several large construction projects, including a new building to house its administrative offices.

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

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS*  
 September 30, 2009

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 \$190,582 in the General Fund.

**E. 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.

**F. Temporary Investments**

The District has adopted an investment policy to meet its responsibilities under the Public Funds Investment Act, Chapter 2256, Texas Government Code. The maximum stated maturity of any individual investment should be no longer than ten years, and the maximum dollar-weighted average maturity of any pooled fund should be no longer than one year. Temporary investments include certificates of deposit, public funds investment pools (TexPool), and money market mutual funds (AIM).

**G. Interfund Receivables and Payables**

During the course of operations, transactions may 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. Capital Assets**

Capital assets, which include buildings, vehicles 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 an asset or materially extend an asset's lives are not capitalized.

Capital assets 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

**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 an expenditure when paid. All compensated absences are accrued when incurred in the

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

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. Long-term Obligations**

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

**L. Fund Balances**

In the fund financial statements of the governmental fund, the District reserves or designates all or portions of fund balance. Reserves of fund balance represent those portions of fund balance not appropriate 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.

**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 may differ from those estimates.

**NOTE 2 – CASH AND TEMPORARY INVESTMENTS**

At September 30, 2009, cash and temporary investments consisted of the following:

	<u>Montgomery County Hospital District</u>
<b>Cash:</b>	
Cash on deposit	\$ 900,948
Cash on hand	2,870
	<u>903,818</u>
<b>Temporary investments:</b>	
Certificates of Deposit	6,682,759
U.S. Agency Securities	4,036,719
Public funds investment pool (TexPool)	10,312,889
Money Market Mutual Funds (AIM)	9,283,757
	<u>30,316,124</u>
 <b>Total cash and temporary investments</b>	 <u><u>\$ 31,219,942</u></u>

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.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

3. Other obligations, the principal and interest on which are unconditionally guaranteed or issued by the State of Texas or the United States or its agencies and instrumentalities.
4. Certificates of deposit and share certificates as provided by 2256.10 of the Government Code.
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.
6. Mutual Funds meeting the requirements of Government Code 2256.014.

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. 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 with shorter-term maturities. The maximum stated maturity of any individual investment shall be no longer than ten years, and the dollar-weighted average maturities of any pooled fund shall be limited to one year. As of September 30, 2009, the District had the following pooled investments:

<u>Public Funds Investment Pool Name</u>	<u>Fair Value</u>	<u>Weighted Average (Years)</u>
TexPool	\$ 5,431,032	0.12
TexStar	4,881,857	0.13

*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 classes of investments, specific maturities or specific issuers. In accordance with the District's policy, the District may meet its obligation to diversify by placing part of its investment portfolio in public fund investment pools, money market mutual funds, and certificates of deposit.

*Credit risk.* At year-end, the balances in Money Market Mutual Funds (AIM) and in TexPool, a privately managed public funds investment pool, were 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.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

**NOTE 3 – PROPERTY TAXES**

Property taxes for each year are levied by the District on approximately October 1, 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 Montgomery 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 \$0.0760 per \$100 valuation. Taxes for fiscal year 2009 were levied on property within the District having an assessed valuation of \$31.0 billion.

Property taxes receivable and allowance for uncollectibles, as of September 30, 2009, are as follows:

Year of Levy	Property Tax	Penalty & Interest	Total
2008	\$ 371,897	\$ 74,379	\$ 446,276
2007	147,267	29,453	176,720
2006	85,129	17,026	102,155
2005	66,625	13,325	79,950
2004	62,082	19,866	81,948
2003	54,462	23,963	78,425
2002	54,113	30,303	84,416
2001	49,176	33,439	82,615
2000	42,977	34,382	77,359
1999	27,775	25,553	53,328
1998	12,913	13,429	26,342
1997	10,861	12,599	23,460
1996 and prior	138,684	245,440	384,124
	<u>1,123,961</u>	<u>573,157</u>	<u>1,697,118</u>
Less: allowance	(344,428)	(310,983)	(655,411)
Receivable, net of allowance	<u>\$ 779,533</u>	<u>\$ 262,174</u>	<u>\$ 1,041,707</u>

**NOTE 4 – RECEIVABLES**

Amounts recorded as receivable in the General Fund, as of September 30, 2009, are as follows:

	Taxes Receivable	Less: Allowance for Uncollectibles	Net Taxes Receivable
Receivable:			
Taxes	\$ 1,697,118	\$ (655,411)	\$ 1,041,707
Emergency medical service fees	6,701,763	(2,730,576)	3,971,187
Other	515,002	-	515,002
<b>Total Receivable</b>	<u>\$ 8,913,883</u>	<u>\$ (3,385,987)</u>	<u>\$ 5,527,896</u>

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
September 30, 2009

**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	\$ 959,901	\$ -	\$ 959,901
Other	-	75,000	75,000
Total deferred/unearned revenue	<u>\$ 959,901</u>	<u>\$ 75,000</u>	<u>\$ 1,034,901</u>

**NOTE 6 – CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,497,571	\$ 406,055	\$ -	\$ 1,903,626
Construction in progress	-	968,809	-	968,809
Total capital assets not being depreciated	<u>1,497,571</u>	<u>1,374,864</u>	<u>-</u>	<u>2,872,435</u>
Capital assets being depreciated:				
Building	528,363	167,657	-	696,020
Equipment	10,758,985	1,247,738	(11,742)	11,994,981
Vehicles	4,692,103	1,183,897	(634,089)	5,241,911
Communication system	6,523,275	269,047	-	6,792,322
Total capital assets being depreciated	<u>22,502,726</u>	<u>2,868,339</u>	<u>(645,831)</u>	<u>24,725,234</u>
Less accumulated depreciation for:				
Building	(300,002)	(24,900)	-	(324,902)
Equipment	(6,964,624)	(1,037,644)	11,486	(7,990,782)
Vehicles	(3,640,675)	(354,048)	634,087	(3,360,636)
Communication system	(6,011,409)	(153,583)	-	(6,164,992)
Total accumulated depreciation	<u>(16,916,710)</u>	<u>(1,570,175)</u>	<u>645,573</u>	<u>(17,841,312)</u>
Total capital assets being depreciated, net	<u>5,586,016</u>	<u>1,298,164</u>	<u>(258)</u>	<u>6,883,922</u>
Government activities capital assets net	<u>\$ 7,083,587</u>	<u>\$ 2,673,028</u>	<u>\$ (258)</u>	<u>\$ 9,756,357</u>

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

Depreciation expense was charged to functions/programs for the fiscal year 2009 as follows:

Governmental activities:	
Administration	\$ 61,686
Healthcare assistance	12,597
Emergency medical services	184,184
Facilities management and systems technology	1,311,708
	\$ 1,570,175

**NOTE 7 – LONG-TERM DEBT**

**A. Changes in Long-term Liabilities**

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Capital Leases	\$ 6,985	\$ -	\$ (6,985)	\$ -	\$ -
Compensated absences	619,399	1,011,925	(1,050,505)	580,819	-
<b>Governmental activity</b>					
<b>Long-term liabilities</b>	\$ 626,384	\$1,011,925	\$(1,057,490)	\$ 580,819	\$ -

**B. Capital Lease**

In prior periods, the District entered into a lease agreement for financing the acquisition of equipment; however, obligations under that lease were paid off in full during the current fiscal year. There are no future debt service requirements for capital leases as of September 30, 2009.

**NOTE 8 – FUND BALANCE**

**A. 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:

- a. **Reserved for Inventories**  
To indicate that inventory, which will be charged to future periods, does not represent expendable resources.
- b. **Reserved for Prepaid Expenditures**  
To indicate that prepaid expenditures, which will be charged to future periods, do not represent expendable resources.
- c. **Reserved for Other Purposes**  
Represents commitments related to unperformed retirement, legal fees and construction.

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

**NOTE 9 – SPECIAL ITEMS**

During 2009, Montgomery County Hospital District offered several of its employees an early retirement package, and also made a one-time payment into a retirement plan on behalf of its long-serving EMS employees in order to compensate them for years when no retirement plan through the District was made available to them. These two transactions were significant to the District, subject to management's control, and infrequent in occurrence, and have therefore have been classified as special items in both the governmental fund and government-wide financial statements. Classification as special items prevents unusual or infrequent occurrences from skewing the results of the District's normal operations, and allows for better comparability and analysis of ongoing activities from one year to the next.

A breakdown of the special items is as follows:

Early retirement packages	\$ 962,214
One-time retirement funding	607,270
Total special items	<u>\$ 1,569,484</u>

**NOTE 10 – 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 did not provide for employer contributions. Plan assets of \$159,593 at September 30, 2009, 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 11 – RETIREMENT PLAN**

The District also provided an employee 457 Deferred Compensation Plan covering all District employees who elected to contribute to the Plan prior to January 1, 2009, along with an employer-matching plan under IRC Section 401(a). This Plan required the District to contribute \$0.50 for each \$1.00 an eligible employee deferred in the 457 Plan up to a maximum of 8% of employee compensation. All full-time employees were eligible to participate in the Plan provided they had completed 120 days of service. Employees become fully vested in the retirement plan after five years of service.

The District contributed a total of \$121,706 to the 401(a) plan in the fiscal year ending September 30, 2009; however, this plan was discontinued after December 31, 2008, and was replaced with the defined benefit pension plan described in Note 12.

**NOTE 12 – PENSION PLAN**

**A. Plan Description**

Effective January 1, 2009, the District began providing retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of over 575 nontraditional defined benefit pension plans. TCDRS, in aggregate, issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees, P.O. Box 2034, Austin, Texas 78769-2034.

The plan provisions are adopted by the governing body of the District, with the options available in the Texas state statutes governing TCDRS, the TCDRS Act. Members can retire at ages of 60 and above with 10 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 10 years, but must leave their accumulated

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amount contributed by the District.

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

**B. Funding Policy**

The District has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the District based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the District is actuarially determined annually, and was 5.94% for the calendar year 2009. The deposit rate payable by the employee members was 7.00% as adopted by the District. The employee deposit rate may be changed by the Board of Directors of the District within the options available in the TCDRS Act.

**C. Annual Pension Cost**

For the District's accounting year ended September 30, 2009, the annual pension cost for the TCDRS plan for its employees was \$605,277 with contributions of the same. The December 31, 2009 actuarial valuation is the most recent valuation available.

**D. Actuarial Valuation Information**

Actuarial valuation date	12/31/2009
Actuarial cost method	entry age
Amortization method	level percent of payroll, closed
Amortization period in years	20 years
Asset valuation method	SAF: 10-year smoothed value ESF: fund value
Actuarial assumptions:	
Investment return	8.00%
Projected salary increases	5.40%
Inflation	3.50%
Cost-of-living adjustments	0.00%

**E. Trend Information for the Plan**

Fiscal year ending September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
2009	\$ 605,277	100%	\$ -

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
*September 30, 2009*

**F. Schedule of Funding Progress**

Actuarial valuation date	12/31/2009
Actuarial value of assets (a)	\$ 1,733,697
Actuarial accrued liability [AAL] (b)	\$ 3,345,094
Unfunded AAL [UAAL] (b-a)	\$ 1,611,397
Funded ratio (a/b)	51.83%
Annual covered payroll (c)	\$ 10,183,852
UAAL as a percentage of covered payroll ((b-a)/c)	15.82%

**NOTE 13 – 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.

**NOTE 14 – OPERATING LEASES**

The District leases building and office facilities under operating leases. Total cost for the leases was \$283,556 for the year ended September 30, 2009. The future minimum lease payments for the lease are as follows:

<u>Year Ending</u> <u>September 30</u>	<u>Amount</u>
2010	\$ 271,796
2011	271,796
2012	158,547
	<u>\$ 702,139</u>

**NOTE 15 – 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 terms of the Indigent Care Agreement ended on May 31, 2008. The Indigent Care Agreement was not renewed. As of June 1, 2008, the District is funding a voluntary estimate of medical care expenses to qualified indigents to those providers that previously were participants in the Indigent Care Agreement.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**MONTGOMERY COUNTY HOSPITAL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET TO ACTUAL – GENERAL FUND**  
*For the Year Ended September 30, 2009*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget - Positive (Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 23,758,747	\$ 23,821,882	\$ 23,972,257	\$ 150,375
Program revenues	10,910,684	11,055,059	12,956,067	1,901,008
Investment earnings	1,253,230	1,253,230	420,481	(832,749)
Miscellaneous	89,712	89,712	92,690	2,978
Tobacco settlement	800,000	800,000	1,055,045	255,045
Total revenues	<u>36,812,373</u>	<u>37,019,883</u>	<u>38,496,540</u>	<u>1,476,657</u>
<b>EXPENDITURES</b>				
Current:				
Administration	3,348,947	3,381,947	3,115,192	266,755
Healthcare assistance	9,341,848	11,341,848	10,876,455	465,393
Emergency medical services	19,963,935	19,940,752	18,558,639	1,382,113
Facilities management and systems technology	1,921,227	1,966,027	1,824,042	141,985
Capital Outlay	1,593,785	2,153,778	4,196,920	(2,043,142)
Total Expenditures	<u>36,169,742</u>	<u>38,784,352</u>	<u>38,571,248</u>	<u>213,104</u>
Excess (deficiency) of revenues over expenditures	<u>642,631</u>	<u>(1,764,469)</u>	<u>(74,708)</u>	<u>1,689,761</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other sources	-	-	9,989	9,989
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>9,989</u>	<u>9,989</u>
<b>SPECIAL ITEMS</b>				
Early retirement and one-time retirement funding	-	-	(1,569,484)	(1,569,484)
Total special items	<u>-</u>	<u>-</u>	<u>(1,569,484)</u>	<u>(1,569,484)</u>
Net change in fund balances	642,631	(1,764,469)	(1,634,203)	130,266
Fund balances - beginning	<u>34,954,186</u>	<u>34,954,186</u>	<u>34,954,186</u>	-
Fund balances - ending	<u>\$35,596,817</u>	<u>\$33,189,717</u>	<u>\$33,319,983</u>	<u>\$ 130,266</u>