

Montgomery County Hospital District

Annual Financial Report

Year Ended September 30, 2016

Table of Contents

Exhibit Page

Financial Section

Independent Auditor’s Report	A-1	2
Management’s Discussion and Analysis		4

Basic Financial Statements

Government-wide Financial Statements		
Statement of Net Position	A-1	13
Statement of Activities.....	B-1	14
Fund Financial Statements		
Balance Sheet – Governmental Fund	C-1	16
Reconciliation of the Governmental Fund		
Balance Sheet to the Statement of Net Position.....	C-2	17
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Fund	C-3	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities.....	C-4	19
Statement of Fiduciary Net Position – Fiduciary Fund	D-1	20
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	D-2	21
Notes to the Financial Statements		22

Required Supplementary Information

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund.....	E-1	42
Schedule of Changes in Net Pension Liability and Related Ratios	F-1	43
Schedule of District Contributions to Texas County and District Retirement System (TCDRS)	F-2	44
Notes to the Required Supplementary Information.....		45

Overall Compliance and Internal Control Section

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		48
Schedule of Findings and Responses.....		51
Summary Schedule of Prior Audit Findings.....		52
Corrective Action Plan		53

This Page Intentionally Left Blank

Financial Section



Independent Auditor's Report

The Board of Directors of
Montgomery County Hospital District
1400 South Loop 336 West
Conroe, Texas 77304

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of Montgomery County Hospital District (the District), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To The Board of Directors of
Montgomery County Hospital District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major fund, and the aggregate remaining fund information of the District, as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed in the table of contents, 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 operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017 on our consideration of Montgomery County Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Montgomery County Hospital District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
April 25, 2017

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, 2016. 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 assets and deferred outflows of resources of the District exceeded its liabilities at September 30, 2016 by \$75,689,186 (net position). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net position also reflects \$34,510,462 that is net investment in capital assets. With the presentation of the investment in capital assets, unrestricted net position amounts to \$41,177,519 (unrestricted net position) 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 \$62,273,038 while expenses were \$45,779,829 resulting in an increase in total net position of \$16,493,209 from operations.
- In contrast to the government-wide statements, the District's governmental fund reported an ending fund balance at September 30, 2016 of \$40,186,276, an increase of \$11,531,953 from the prior year. Approximately 59% of the ending balance, \$23,890,032, is unassigned.
- At year-end, the unassigned General Fund balance was 49% 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 Position 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 Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. The GASB believes that, over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position 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 governmental activities of the District include administration, healthcare assistance, emergency medical services, radio, facilities and information technology, public health and emergency preparedness and interest and fiscal charges.

The government-wide financial operations (*governmental activities*) of the District are principally supported by taxes and emergency medical services.

The government-wide financial statements can be found in the basic financial statements section.

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 fund and fiduciary fund.

Governmental Fund. A *governmental fund* is 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 the governmental fund 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 balance 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.

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

Notes to Financial Statements. The Notes to 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.

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, schedule of changes in net pension liabilities and related ratios and schedule of District contributions to Texas County and District Retirement System (TCDRS), which are in the section titled "Required Supplementary Information".

Government-wide Financial Analysis

As noted earlier, the GASB believes net position may, over time, serve as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$75,689,186, at September 30, 2016, as shown in the table that follows.

Montgomery County Hospital District's Net Position

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 44,722,361	54	\$ 32,308,778	48	\$ 12,413,583	38
Non-current capital assets	37,728,264	46	34,497,702	52	3,230,562	9
Total assets	82,450,625	100	66,806,480	100	15,644,145	
Total deferred outflows of resources	3,410,218	100	1,971,838	100	1,438,380	73
Other liabilities	3,225,738	35	3,014,238	31	211,500	7
Long-term liabilities	6,059,124	65	6,568,103	69	(508,979)	(8)
Total liabilities	9,284,862	100	9,582,341	100	(297,479)	
Total deferred inflows of resources	886,795	100	-	-	886,795	100
Net position:						
Net investment in capital assets	34,510,462	46	30,526,182	52	3,984,280	13
Restricted	1,205	-	-	-	1,205	-
Unrestricted	41,177,519	54	28,669,795	48	12,507,724	44
Total net position	<u>\$ 75,689,186</u>	<u>100</u>	<u>\$ 59,195,977</u>	<u>100</u>	<u>\$ 16,493,209</u>	

The District's total assets of \$82,450,625 are largely comprised of capital assets net of accumulated depreciation of \$37,728,264, or 46% of total assets. 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.

Long-term liabilities of \$6,059,124 or 65% of total liabilities, are the largest portion of the District's total liabilities of \$9,284,862. A more in-depth description of long-term liabilities can be found in note 8 in the notes to the financial statements.

At September 30, 2016, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$75,689,186. Approximately 46% of total net position or \$34,510,462 represents net investments in capital assets. The \$41,177,519 (54%) of unrestricted net position represents resources available to fund the programs of the District next year.

The District's governmental activities increased net position by \$16,493,209. Key components of this increase are as follows:

Montgomery County Hospital District's Changes in Net Position

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues						
Program revenues:						
Charges for services:						
Administration	\$ 221,836	-	\$ 223,472	-	\$ (1,636)	-1
Healthcare assistance	9,511	-	8,969	-	542	6
Emergency medical services	15,128,309	24	15,503,658	29	(375,349)	(2)
Radio, facilities, and information technology	1,164,072	2	468,265	1	695,807	149
Operating grants and contributions:						
Emergency medical services	7,528,254	12	3,832,941	7	3,695,313	96
Public health emergency preparedness	2,336	-	10,818	-	(8,482)	(78)
General revenues:						
Property taxes	35,822,069	58	32,350,422	62	3,471,647	11
Grants and contributions not restricted to a specific program	529,588	1	598,224	1	(68,636)	(11)
Investment earnings	247,924	-	179,736	-	68,188	38
Miscellaneous	1,619,139	3	156,381	-	1,462,758	935
Total revenues	<u>62,273,038</u>	<u>100</u>	<u>53,332,886</u>	<u>100</u>	<u>8,940,152</u>	
Expenses						
Administration	3,400,558	7	3,734,880	9	(334,322)	(9)
Healthcare assistance	7,030,572	15	7,412,383	18	(381,811)	(5)
Emergency medical services	28,396,929	63	25,310,093	61	3,086,836	12
Radio, facilities, and information technology	6,195,546	14	4,902,470	12	1,293,076	26
Public health and emergency preparedness	682,059	1	120,973	-	561,086	464
Interest and fiscal charges	74,165	-	63,347	-	10,818	17
Total expenses	<u>45,779,829</u>	<u>100</u>	<u>41,544,146</u>	<u>100</u>	<u>4,235,683</u>	
Change in net position	16,493,209		11,788,740		4,704,469	
Net position - beginning	59,195,977		47,407,237		11,788,740	
Net position - ending	<u>\$ 75,689,186</u>		<u>\$ 59,195,977</u>		<u>\$ 16,493,209</u>	

The District's total revenues of \$62,273,038 were all from governmental activities. Property tax revenue accounts for \$35,822,069, or 58%, and emergency medical services revenue accounts for \$15,128,309, or 24% of total government-wide revenues. Total revenues increased \$8,940,152 over the last year. The increase in revenues resulted from an increase in property taxes caused by an increase in taxable value, as well as an increase in program fees related to emergency medical services.

Total expenses for the year ended September 30, 2016 amounted to \$45,779,829. Healthcare assistance accounted for \$7,030,572 or 15%, emergency medical services accounted for \$28,396,929, or 63%, and radio, facilities, and information technology accounted for \$6,195,546, or 14% of total government-wide expenses. Total expenses went up due to increased EMS staffing in response to population growth in the county and higher professional fees that correspond with increased reimbursement from the Ambulance Supplemental Payment Program. Radio, facilities, and information technology had an increase in depreciation. Insurance expense was charged to emergency preparedness rather than administration as in previous years.

Governmental Fund Financial Analysis

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

The focus of the District's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the District's operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$23,890,032 and total fund balance was \$40,186,276. As a measure of the general fund's liquidity, it may be useful to compare unassigned and total fund balance to total fund expenditures. Unassigned and total fund balance represents 49% and 82% of total general fund expenditures, respectively. The fund balance of the District's general fund increased by \$11,531,953 during the current fiscal year. For the most part, increases in assessed property values and program fees were the primary reasons for the increase in fund balance. This allowed the District to commit funds for future contingencies.

General Fund Budgetary Highlights

The District's budget is prepared on a modified accrual basis. There were no significant differences between the original budget and the final amended budget.

The following represents the differences between the final amended budget and the actual expenditures for the General Fund for the year ended September 30, 2016:

- Healthcare assistance actual expenditures were less than budget due to fewer patients utilizing HCAP services than expected.
- EMS expenditures were under budget primarily due to operating expenses running less than budget and some capital expenditures being postponed.
- Radio, facilities and information technology expenditures were also less than budget primarily due to operating expenses and capital purchases being less than expected.

Capital Assets and Debt Administration

Capital Assets

The District's investment in capital assets for its governmental activities as of September 30, 2016 amounts to \$37,728,264 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, equipment, vehicles, and communication system.

Major capital asset activity during the year included the following:

- Ambulances and support vehicles purchased in the amount of \$1,568,563
- Equipment purchased in the amount of \$3,040,316
- Real property purchased in the amount of \$650,727

Montgomery County Hospital District's Capital Assets (net of depreciation)

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 3,499,173	9	\$ 3,109,609	9	\$ 389,564	13
Construction in progress	-	-	1,002,186	3	(1,002,186)	(100)
Buildings and improvements	21,307,658	56	20,368,051	60	939,607	5
Equipment	5,155,024	14	2,832,383	8	2,322,641	82
Vehicles	3,350,285	9	2,531,428	7	818,857	32
Communication system	4,416,124	12	4,654,045	13	(237,921)	(5)
Totals	<u>\$ 37,728,264</u>	<u>100</u>	<u>\$ 34,497,702</u>	<u>100</u>	<u>\$ 3,230,562</u>	

Additional information on the District's capital assets can be found in Note 7 of this report.

Long-term Liabilities

At September 30, 2016, the District had total outstanding long-term liabilities in the amount of \$6,059,124, which was related to capital leases, compensated absences and net pension liability. The following table summarizes the District's long-term liabilities.

Montgomery County Hospital District's Outstanding Long-term Liabilities

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Capital leases	\$ 3,217,802	53	\$ 3,971,520	60	\$ (753,718)	(19)
Compensated absences	910,000	15	854,791	13	55,209	6
Net pension liability	1,931,322	32	1,741,792	27	189,530	11
Total	<u>\$ 6,059,124</u>	<u>100</u>	<u>\$ 6,568,103</u>	<u>100</u>	<u>\$ (508,979)</u>	

The District's total long-term liabilities decreased by \$508,979 during the 2016 fiscal year, mostly due to a decrease in the District's capital lease obligations. Additional information on the District's long-term liabilities can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

- District staff totals 316 employees, 193 of which are EMS responders.
- The unemployment rate for Montgomery County is currently 5.4%, which is an increase from the rate of 4.5% last year. This is greater than the State's average unemployment of 4.7%.
- The population of Montgomery County for 2015-2016 is approximately 616,568.
- A maintenance and operations tax rate of \$.0710 was adopted for the 2015-2016 fiscal year.

The District's budgeted fund balance for the 2017 fiscal year is expected to decrease by approximately \$522,000.

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 additional financial information should be addressed to the Montgomery County Hospital District, P.O. Box 478, Conroe, Texas 77305.

Basic Financial Statements

This Page Intentionally Left Blank

MONTGOMERY COUNTY HOSPITAL DISTRICT
Statement of Net Position
September 30, 2016

Exhibit A-1

	<u>Primary Government Governmental Activities</u>	<u>Component Unit MCPHD</u>
ASSETS		
Cash and cash equivalents	\$ 8,946,485	\$ 938,744
Temporary investments	24,932,460	-
Receivables, net	9,891,498	7,500
Intergovernmental receivables	-	93,696
Due from component unit	189,071	-
Inventories	607,430	-
Prepaid expenses	155,417	-
Capital assets, net of accumulated depreciation		
Land and improvements	3,499,173	-
Buildings and improvements	21,307,658	-
Equipment	5,155,024	-
Vehicles	3,350,285	-
Communication system	4,416,124	-
Total capital assets	<u>37,728,264</u>	<u>-</u>
Total assets	<u>82,450,625</u>	<u>1,039,940</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources for pensions	3,410,218	-
Total deferred outflows of resources	<u>3,410,218</u>	<u>-</u>
LIABILITIES		
Accounts payable and accrued liabilities	3,123,466	1,718
Unearned revenues	77,511	6,734
Accrued interest	24,761	-
Due to primary government	-	189,071
Noncurrent liabilities		
Due within one year		
Capital lease payable	1,029,123	-
Compensated absences	910,000	-
Due in more than one year		
Capital lease payable	2,188,679	-
Net pension liability	1,931,322	-
Total liabilities	<u>9,284,862</u>	<u>197,523</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources for pensions	886,795	-
Total deferred inflows of resources	<u>886,795</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	34,510,462	-
Restricted - grants	1,205	-
Unrestricted	<u>41,177,519</u>	<u>842,417</u>
TOTAL NET POSITION	<u>\$ 75,689,186</u>	<u>\$ 842,417</u>

The Notes to Financial Statements are an integral part of these statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT
Statement of Activities
Year Ended September 30, 2016

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental activities			
Administration	\$ 3,400,558	\$ 221,836	\$ -
Healthcare assistance	7,030,572	9,511	-
Emergency medical services	28,396,929	15,128,309	7,528,254
Radio, facilities, and information technology	6,195,546	1,164,072	-
Public health and emergency preparedness	682,059	-	2,336
Interest and fiscal charges	74,165	-	-
Total governmental activities	<u>45,779,829</u>	<u>16,523,728</u>	<u>7,530,590</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 45,779,829</u>	<u>\$ 16,523,728</u>	<u>\$ 7,530,590</u>
COMPONENT UNIT			
Montgomery County Public Health District	<u>\$ 2,141,785</u>	<u>\$ 15,662</u>	<u>\$ 1,781,064</u>

General revenues
Property taxes
Grants and contributions not restricted to a specific program
Investment earnings
Miscellaneous
Total general revenues

Change in net position

Net position - beginning

NET POSITION - ENDING

Exhibit B-1

Primary Government Net (Expense) Revenue and Changes in Net Position		Component Unit
Governmental Activities	Total	MCPHD
\$ (3,178,722)	\$ (3,178,722)	
(7,021,061)	(7,021,061)	
(5,740,366)	(5,740,366)	
(5,031,474)	(5,031,474)	
(679,723)	(679,723)	
(74,165)	(74,165)	
<u>(21,725,511)</u>	<u>(21,725,511)</u>	
(21,725,511)	(21,725,511)	
		\$ (345,059)
35,822,069	35,822,069	-
529,588	529,588	-
247,924	247,924	-
1,619,139	1,619,139	90,144
<u>38,218,720</u>	<u>38,218,720</u>	<u>90,144</u>
16,493,209	16,493,209	(254,915)
59,195,977	59,195,977	1,097,332
<u>\$ 75,689,186</u>	<u>\$ 75,689,186</u>	<u>\$ 842,417</u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
 Balance Sheet - Governmental Fund
 September 30, 2016

Exhibit C-1

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 8,946,485
Temporary investments	24,932,460
Receivables	
Taxes receivable, net	732,640
EMS receivable, net	5,515,268
Other receivables, net	3,643,590
Due from component unit	189,071
Inventories	607,430
Prepaid items	155,417
	<hr/>
TOTAL ASSETS	\$ 44,722,361
	<hr/> <hr/>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 3,123,466
Unearned revenue	679,979
Total liabilities	<hr/> 3,803,445 <hr/>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	130,172
Unavailable revenue - long-term receivable	602,468
Total deferred inflows of resources	<hr/> 732,640 <hr/>
FUND BALANCE	
Nonspendable - inventories	607,430
Nonspendable - prepaid items	155,417
Restricted - grants	1,205
Committed - capital repair and maintenance	2,061,343
Committed - open purchase orders	536,808
Committed - uncompensated care	7,580,000
Committed - catastrophic events	5,000,000
Assigned - open purchase orders	354,041
Unassigned	23,890,032
Total fund balance	<hr/> 40,186,276 <hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 44,722,361
	<hr/> <hr/>

MONTGOMERY COUNTY HOSPITAL DISTRICT
 Reconciliation of the Governmental Fund Balance Sheet
 to the Statement of Net Position
 September 30, 2016

Exhibit C-2

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS BALANCE SHEET \$ 40,186,276

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 59,786,317	
Accumulated depreciation of governmental capital assets	<u>(22,058,053)</u>	37,728,264

Property taxes receivable and long-term receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 1,335,108

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Capital leases	\$ (3,217,802)	
Accrued interest on capital leases	(24,761)	
Compensated absences	(910,000)	
Net pension liability	(1,931,322)	
Deferred resource inflow related to net pension liability	<u>(886,795)</u>	(6,970,680)

Deferred outflows for pension are included in the statement of net position and are not reported in the funds due to they are not a current financial resource available to pay for current expenditures. 3,410,218

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 75,689,186

MONTGOMERY COUNTY HOSPITAL DISTRICT
Statement of Revenues, Expenditures and Changes
in Fund Balance - Governmental Fund
Year Ended September 30, 2016

Exhibit C-3

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 35,754,407
Program revenues	23,227,678
Charges for services	235,187
Intergovernmental	531,924
Investment earnings	247,924
Miscellaneous	246,997
Total revenues	<u>60,244,117</u>
EXPENDITURES	
Current	
Administration	2,930,873
Healthcare assistance	7,035,556
Emergency medical services	27,380,035
Radio, facilities, and information technology	4,290,047
Public health and emergency preparedness	681,342
Debt service	
Principal retirement	850,512
Interest and fiscal charges	74,165
Capital outlay	5,995,804
Total expenditures	<u>49,238,334</u>
Excess of revenues over expenditures	11,005,783
OTHER FINANCING SOURCES	
Capital lease	96,794
Proceeds from sale of assets	429,376
Total other financing sources	<u>526,170</u>
Net change in fund balance	11,531,953
Fund balance - beginning	<u>28,654,323</u>
FUND BALANCE - ENDING	<u><u>\$ 40,186,276</u></u>

MONTGOMERY COUNTY HOSPITAL DISTRICT**Exhibit C-4**

Reconciliation of Statement of Revenues, Expenditures and
 Changes in Fund Balance of Governmental Fund
 to the Statement of Activities
 Year Ended September 30, 2016

TOTAL NET CHANGES IN FUND BALANCE - GOVERNMENTAL FUND \$ 11,531,953

Amounts reported for governmental activities in the statement of activities are different because:

Some property taxes and long-term receivables will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues and charges for services increased (decreased) by this amount this year. 670,130

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlay	\$ 5,995,804	
Depreciation expense	<u>(3,697,207)</u>	2,298,597

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position. 931,965

Issuance of a capital lease provides current financial resources to governmental funds, but issuing a capital lease increases long-term liabilities in the statement of net position. (96,794)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 850,512

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (55,209)

The net change in net pension liability and related deferred inflows and outflows is reported in the statement of activities but does not require the use of, or provide, current financial resources and, therefore, is reported in the governmental funds. The net change consists of the following:

Deferred inflows (increased) decreased	(886,795)	
Deferred outflows increased (decreased)	1,438,380	
Net pension liability (increased) decreased	<u>(189,530)</u>	<u>362,055</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES **\$ 16,493,209**

MONTGOMERY COUNTY HOSPITAL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Fund
September 30, 2016

Exhibit D-1

	Deferred Compensation Plan
ASSETS	
Cash and cash equivalents	\$ 153,982
Total assets	<u>153,982</u>
LIABILITIES	
Due to others	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for benefits and other purposes	<u>153,982</u>
TOTAL NET POSITION	<u><u>\$ 153,982</u></u>

MONTGOMERY COUNTY HOSPITAL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended September 30, 2016

Exhibit D-2

	<u>Deferred Compensation Plan</u>
ADDITIONS	
Investment earnings	
Interest	\$ 8,192
Net increase (decrease) in the fair value of investments	<u>370</u>
Total investment earnings	<u>8,562</u>
Total additions	<u>8,562</u>
DEDUCTIONS	
Benefits	<u>-</u>
Total deductions	<u>-</u>
Change in net position	8,562
Net position - beginning	<u>145,420</u>
NET POSITION - ENDING	<u><u>\$ 153,982</u></u>

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are supported by taxes, emergency medical services, intergovernmental revenues, and other nonexchange transactions. Likewise, the *primary government* is reported separately from a legally separate *component unit* for which the primary government is financially accountable.

B. Reporting Entity

Montgomery County Hospital District (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 partnered 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 generally accepted accounting principles (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.

Discretely Presented Component Unit

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 a discretely presented component unit. The Montgomery County Public Health District (MCPHD) is the result of a Cooperative Agreement between Montgomery County, Texas, the City of Panorama and the City of Conroe. The MCPHD's purpose is to provide essential public health services as defined in Section 121.002 of the Act:

- Monitor the health status of individuals in the community to identify community health problems;
- Diagnose and investigate community health problems and community health hazards;
- Inform, educate, and empower the community with respect to health issues;
- Mobilize community partnerships in identifying and solving community health problems;
- Develop policies and plans that support individual and community efforts to improve health;
- Enforce laws and rules that protect the public health and ensure safety in accordance with those laws and rules;
- Link individuals who have a need for community and personal health services to appropriate community and private providers;

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

- Ensure a competent workforce for the provision of essential public health services;
- Research new insights and innovative solutions to community health problems;
- Evaluate the effectiveness, accessibility, and quality of personal and population-based services in a community.

The MCPHD has assigned or contracted with the District to administer all programs, services, and administrative needs of the MCPHD.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The government-wide financial statements report information on all the activities of the District. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District. The governmental activities column incorporates data from the governmental fund. Separate financial statements are provided for the governmental fund and fiduciary fund, even though the latter is excluded from the government-wide financial statements.

As discussed earlier, the government has a discretely presented component unit which is shown in a separate column in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. Major individual governmental funds are reported as separate columns in the fund financial statements.

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.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources or economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The deferred compensation plan trust fund is reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. New Accounting Standards

In fiscal year 2016, the District adopted the following statements issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 prescribes how state and local governments should define and measure fair value. It also prescribes which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements to provide comprehensive information for financial statement users about the impact of fair value measurements on a government's financial position. The applicable disclosures required by GASB Statement No. 72 are included in the District's notes to financial statements.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 identifies the hierarchy of generally accepted accounting principles (GAAP) for state and local governments and reduces from four to two the categories of authoritative GAAP within the GAAP hierarchy for state and local governments. This Statement also addresses the use of authoritative and nonauthoritative literature for situations when GAAP does not specify the accounting treatment for a transaction or other event. The adoption of GASB Statement No. 76 did not impact the District's financial statements.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes, and establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The applicable disclosures required by GASB Statement No. 79 are included in the District's notes to financial statements.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. 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.

2. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in the qualified investment pools (Pools). The carrying value of investment pools is determined by the valuation policy of the investment pool, either at amortized cost or net asset value of the underlying pool shares. The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable medical supplies, radio repair parts, and vehicle repair parts. The cost of such inventory is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, equipment, vehicles, and communication system assets (e.g. radio towers, structures, equipment, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years.

As the District constructs or acquires additional capital assets each period, including communication system assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Land and improvements and construction in progress are not depreciated. The buildings and improvements, equipment, vehicles, and communication system assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	8-30
Equipment	2-15
Vehicles	5-8
Communication system	5-30

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The deferred outflow for pensions results from the difference in projected and actual earnings on plan investments and the effects of actuarial differences and changes in assumptions. The plan's investment earnings difference is amortized over 5 years and the actuarial differences and changes in assumptions is amortized over a period equal to the average of the expected remaining service lives of all employees. The District also recognizes a deferred outflow for contributions made to the plan after the plan's measurement date which are recognized in the subsequent year.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental fund reports unavailable revenues from property taxes and long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the District has one type of item which is reported in the government-wide statement of net position. This item is *deferred inflows of resources for pensions*. This deferred resource inflow related to the net pension liability results from differences in expected and actual experience.

6. *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas County and District Retirement System (TCDRS) and additions to/deductions from TCDRS's Fiduciary Net Position have been determined on the same basis as they are reported by TCDRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

7. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board (board) has by policy authorized the Chief Executive Officer (CEO) or his designee to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

H. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

2. Property Taxes

Property values are determined by the Montgomery Central Appraisal District as of July 31 of each year. Prior to October 1 of each year, the District sets its tax rate thus creating the tax levy. The taxes are levied and payable October 1 on property values assessed as of January 1. Taxes may be paid without penalty before February 1 of the following year and create a tax lien as of July 1 of each year. The tax assessor/collector for Montgomery County bills and collects the property taxes for the District. Property tax revenues are recognized when levied to the extent that they result in current receivables. The combined current tax rate to finance general governmental services for the year ended September 30, 2016 was \$0.0710 per \$100, allocated to the General Fund.

3. 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 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.

4. Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Data

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the CEO submits to the District board a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. The CEO may approve a department's request to transfer an unencumbered balance, or portion thereof within any department; however, the board must approve a transfer of funds between departments.
4. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Note 3. Deposits and Investments

Primary Government

At September 30, 2016, the carrying amount of the District's deposits (cash, interest-bearing savings accounts, and money market accounts) was \$9,098,567 and the bank's balances totaled \$9,676,945. At September 30, 2016, all bank balances were covered by federal deposit insurance, or pledged collateral held by the financial institution in the District's name. The District's investments consisted of local investment pools and certificates of deposit at fiscal year-end.

The District is required by the Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investment, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) securities lending program, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) commercial paper.

The District's investments are stated at fair value, with certain exceptions described below. The District categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, which provides a framework for measuring fair value and establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain investment types are not required to be measured at fair value; these include money market funds and certain investment pools which are measured at amortized cost, and other investment pools which are measured at the net asset value (NAV) determined by the pool, which approximates fair value. These instruments are exempt from categorization within the fair value hierarchy.

MONTGOMERY COUNTY HOSPITAL DISTRICT
Notes to the Financial Statements

At September 30, 2016, the District had the following cash and cash equivalents and investments:

Investment Type	Primary Government	Component Unit	Total	Weighted Average Maturity (Years)
Investments measured at fair value				
Certificates of deposit	\$ 5,750,411	\$ -	\$ 5,750,411	0.23
Investments measured at amortized cost				
External investment pools				
TexPool	9,846,297	-	9,846,297	0.12
Investments measured at net asset value				
External investment pools				
TexStar	9,335,752	-	9,335,752	0.30
Cash deposits	8,946,485	938,744	9,885,229	
	\$ 33,878,945	\$ 938,744	\$ 34,817,689	
Portfolio weighted average maturity				0.10

The certificates of deposit are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to the benchmark quoted prices.

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.

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 all or part of its investment portfolio in public fund investment pools, money market mutual funds, and certificates of deposit.

Credit risk. For fiscal year 2016, the District invested in TexPool and TexStar. TexPool is duly chartered by the State Comptroller's Office and administered and managed by Federated Investors, Inc. TexStar is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. TexPool and TexStar are rated AAAM by Standard and Poor at September 30, 2016.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of September 30, 2016, District's deposits were not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered, or securities are held by the District or its agent in the District's name.

Discretely Presented Component Unit

As of September 30, 2016, the MCPHD bank balance was \$938,544 and was insured and collateralized by the bank's agent in the MCPHD's name.

Note 4. Receivables

Amounts recorded as receivable in the General Fund, as of September 30, 2016, are as follows:

	<u>Receivables</u>	<u>Less Allowance for Uncollectibles</u>	<u>Net Receivables</u>
Receivables:			
Taxes	\$ 1,088,917	\$ (356,277)	\$ 732,640
Emergency medical service fees	9,505,934	(3,990,666)	5,515,268
Other	3,643,590	-	3,643,590
<i>Totals</i>	<u>\$ 14,238,441</u>	<u>\$ (4,346,943)</u>	<u>\$ 9,891,498</u>

Note 5. Property Taxes

The District is authorized to levy a tax on taxable property located within the District in an amount not to exceed the rollback rate for the purpose of paying operating expenses and for debt service. The current tax rate is approximately \$0.0710 per \$100 valuation. Taxes for fiscal year 2016 were levied on property within the District having an assessed valuation of approximately \$50 billion.

Note 6. Primary Government and Component Unit Activity

The District has several interlocal agreements with MCPHD. The management agreement stipulates that the District will manage employees that serve MCPHD for which the District is reimbursed for the costs associated with the personnel. The District also pays vendor-related expenses on behalf of the MCPHD and is reimbursed for these costs as incurred. The District performs certain administrative, human resources, accounting, information technology and records management functions for MCPHD and charges a monthly management fee of approximately \$8,000 per month.

The District and MCPHD have an interlocal agreement to provide community paramedicine services. The District will provide the services and MCPHD will reimbursement the District \$300 for each patient encounter up to 5,225 patient encounters per year. For the year ended September 30, 2016, the District recognized as revenue and MCPHD recognized as expense at total \$1,144,200 for services rendered.

The District and MCPHD have also entered into a lease agreement whereby MCPHD leases office space from the District for approximately \$90,000 per year.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Amounts receivable and payable between the District and its component unit at September 30, 2016 were as follows:

Primary Government/Component Unit	Receivables	Payables
District - General Fund	\$ 189,071	\$ -
Component unit - MCPHD	-	189,071
<i>Totals</i>	\$ 189,071	\$ 189,071

Note 7. Capital Assets

Capital assets activity for the year ended September 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases and Reclass	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 3,109,609	\$ 650,727	\$ (261,163)	\$ 3,499,173
Construction in progress	1,002,186	-	(1,002,186)	-
Total capital assets, not being depreciated	4,111,795	650,727	(1,263,349)	3,499,173
Capital assets, being depreciated:				
Buildings and improvements	24,156,520	736,197	957,370	25,850,087
Equipment	10,959,898	4,308,972	(184,113)	15,084,757
Vehicles	5,555,330	1,568,563	(282,123)	6,841,770
Communication system	8,514,428	-	(3,898)	8,510,530
Total capital assets being depreciated	49,186,176	6,613,732	487,236	56,287,144
Less accumulated depreciation for				
Buildings and improvements	(3,788,469)	(792,093)	38,133	(4,542,429)
Equipment	(8,127,515)	(1,978,630)	176,412	(9,929,733)
Vehicles	(3,023,902)	(689,728)	222,145	(3,491,485)
Communication system	(3,860,383)	(236,756)	2,733	(4,094,406)
Total accumulated depreciation	(18,800,269)	(3,697,207)	439,423	(22,058,053)
Total capital assets, being depreciated, net	30,385,907	2,916,525	926,659	34,229,091
Government activities capital assets, net	\$ 34,497,702	\$ 3,567,252	\$ (336,690)	\$ 37,728,264

Depreciation expense was charged to functions/programs for the fiscal year 2016 as follows:

Governmental activities	
Administration	\$ 490,658
Healthcare assistance	3,504
Emergency medical services	1,285,148
Radio, facilities and information technology	1,917,897
<i>Total</i>	\$ 3,697,207

MONTGOMERY COUNTY HOSPITAL DISTRICT
Notes to the Financial Statements

Note 8. Long-term Liabilities

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the period ended September 30, 2016 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 3,971,520	\$ 96,794	\$ (850,512)	\$ 3,217,802	\$ 1,029,123
Compensated absences	854,791	1,482,510	(1,427,301)	910,000	910,000
Net pension liability	1,741,792	2,676,953	(2,487,423)	1,931,322	-
<i>Governmental activities</i>					
<i>Long-term liabilities</i>	<u>\$ 6,568,103</u>	<u>\$ 4,256,257</u>	<u>\$ (4,765,236)</u>	<u>\$ 6,059,124</u>	<u>\$ 1,939,123</u>

For governmental activities, capital leases payable, compensated absences and net pension liability are liquidated by the General Fund.

B. Capital Leases

The District entered into lease agreements for financing the acquisition of equipment and the construction of buildings. The following is a summary of changes in the capital leases of the governmental activities for the fiscal year:

Description	Beginning Balance	Additions	Reductions	Ending Balance
Zoll Monitors	\$ 647,032	\$ -	\$ (206,258)	\$ 440,774
P-25 Equipment	1,197,105	-	(358,897)	838,208
EMS Station 40	1,125,196	96,794	(237,957)	984,033
EMS Station 43	1,002,187	-	(47,400)	954,787
<i>Totals</i>	<u>\$ 3,971,520</u>	<u>\$ 96,794</u>	<u>\$ (850,512)</u>	<u>\$ 3,217,802</u>

The future debt service requirements for capital leases as of September 30, 2016 are noted below:

Year Ended September 30	Governmental Activities		
	Principal	Interest	Total
2017	\$ 1,029,123	\$ 74,470	\$ 1,103,593
2018	1,058,145	46,239	1,104,384
2019	563,005	19,093	582,098
2020	409,815	8,107	417,922
2021	157,714	1,499	159,213
<i>Totals</i>	<u>\$ 3,217,802</u>	<u>\$ 149,408</u>	<u>\$ 3,367,210</u>

Amortization of leased equipment is included with depreciation expense.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

Leased buildings and equipment under capital leases in capital assets at September 30, 2016, include the following:

Building and improvements	\$ 3,166,639
Equipment	3,074,453
Less accumulated depreciation	1,778,240
<i>Total</i>	<u>\$ 4,462,852</u>

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 did not provide for employer contributions. Plan assets of \$153,982 at September 30, 2016, recorded in the fiduciary fund, are restricted.

Note 10. Pension Plan

A. Plan Description

The District's nontraditional defined benefit pension plan, Texas County and District Retirement System (TCDRS), provides pensions for all of its full-time employees. The TCDRS Board of Trustees is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 701 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, www.tcdrs.org.

B. Benefits Provided

TCDRS provides retirement, disability, and death benefits. The plan provisions are adopted by the governing body of the District, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire with five or more years of serviced at age 60 and above, 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 five years of service but must leave their accumulated 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 amounts contributed by the District.

Benefit amounts are determined by the sum of the employee's contribution to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the Board of Directors 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 employer'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.

The Plan is open to new entrants.

MONTGOMERY COUNTY HOSPITAL DISTRICT
Notes to the Financial Statements

C. Employees Covered by Benefit Terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	183
Active employees	291
<i>Total</i>	<u><u>479</u></u>

D. Contributions

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 employer based on the covered payroll of the employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 7.38 percent and \$1,406,230 for the calendar year 2015.

The deposit rate payable by the employee member for calendar year 2015 was 7.0 percent as adopted by the Board of Directors. The employee deposit rate and the employer contribution rate may be changed by the Board of Directors within the options available in the TCDRS Act.

E. Actuarial Assumptions

The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth	2.00%
Real rate of return	5.00%
Long-term investment return	8.00%

The actuarial assumptions that determined the total pension liability as of December 31, 2015, were based on the results of an actuarial experience study for the period January 1, 2009 through December 31, 2012. In addition, mortality rates were based on the following mortality tables:

Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and non-depositing members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	P-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to the Financial Statements

The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The numbers shown are based on January 2016 information for a 7-10 year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years, and is set based on a 30-year time horizon. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equities	14.50 %	5.45%
Private equity	14.00	8.45%
Global equities	1.50	5.75%
International equities - developed	10.00	5.45%
International equities - emerging	8.00	6.45%
Investment - grade bonds	3.00	1.00%
High-yield bonds	3.00	5.10%
Opportunistic credit	2.00	5.09%
Direct lending	5.00	6.40%
Distressed debt	3.00	8.10%
REIT equities	3.00	4.00%
Master limited partnerships	3.00	6.80%
Private real estate partnerships	5.00	6.90%
Hedge funds	25.00	5.25%
<i>Total</i>	100.00 %	

Discount Rate

The discount rate used to measure the total pension liability was 8.10%. The discount rate was determined using an alternative method to determine the sufficiency of the fiduciary net position in all future years. The alternative method reflects the funding requirements under the funding policy and the legal requirements under the TCDRS Act. TCDRS has a funding policy where the Unfunded Actuarial Accrued Liability (UAAL) shall be amortized as a level percent of pay over 20-year closed layered periods. The employer is legally required to make the contribution specified in the funding policy. The employer's assets are projected to exceed its accrued liabilities in 20 years or less. When this point is reached, the employer is still required to contribute at least the normal cost. Any increased cost due to the adoption of a COLA is required to be funded over a period of 15 years, if applicable. Based on the above assumptions, the projected fiduciary net position is determined to be sufficient compared to projected benefit payments. Based on the expected levels of cash flows and investment returns to the system, the fiduciary net position as a percentage of total pension liability is projected to increase from its current level in future years.

Since the projected fiduciary net position is projected to be sufficient to pay projected benefit payments in all future years, the discount rate for purposes of calculating the total pension liability and net pension liability of the employer is equal to the long-term assumed rate of return on investments. This long-term assumed rate of return should be net of investment expenses, but gross of administrative expenses for GASB 68 purposes. Therefore, a discount rate of 8.10% has been used. This rate reflects the long-term assumed rate of return on assets for funding purposes of 8.00%, net of all expenses, increased by 0.10% to be gross of administrative expenses.

MONTGOMERY COUNTY HOSPITAL DISTRICT
Notes to the Financial Statements

F. Plan Fiduciary Net Position

Detailed Information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2014	\$ 16,712,585	\$ 14,970,793	\$ 1,741,792
Changes for the year			
Service cost	2,241,909	-	2,241,909
Interest	1,439,974	-	1,439,974
Effect of plan changes	(124,742)	-	(124,742)
Effect of economic demographic gains or losses	(1,013,480)	-	(1,013,480)
Effect of assumptions changes or inputs	176,666	-	176,666
Refunds of contributions	(103,230)	(103,230)	-
Benefit payments	(18,562)	(18,562)	-
Administrative expense	-	(11,770)	11,770
Member contributions	-	1,333,823	(1,333,823)
Net investment income	-	(197,756)	197,756
Employer contributions	-	1,406,230	(1,406,230)
Other changes	-	270	(270)
Net changes	<u>2,598,535</u>	<u>2,409,005</u>	<u>189,530</u>
Balance at December 31, 2015	<u>\$ 19,311,120</u>	<u>\$ 17,379,798</u>	<u>\$ 1,931,322</u>

Sensitivity Analysis

The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate.

	1% Decrease	Current	1% Increase
	(7.10%)	Discount Rate (8.10%)	(9.10%)
District's net pension liability / (asset)	\$ 6,196,154	\$ 1,931,322	\$ (1,407,339)

MONTGOMERY COUNTY HOSPITAL DISTRICT
Notes to the Financial Statements

G. Pension Expense and Deferred Outflows of Resources Related to Pensions

For the fiscal year ended September 30, 2016, the District recognized pension expense of \$1,248,978.

At September 30, 2016, the District reported deferred inflows and outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 643,271	\$ 886,795
Change in assumptions	154,580	-
Net difference between projected and actual earnings on pension plan investments	1,369,501	-
	-	-
Contributions made subsequent to the measurement date	1,242,866	-
<i>Totals</i>	<u>\$ 3,410,218</u>	<u>\$ 886,795</u>

The \$1,242,866 reported as deferred outflows of resources related to pensions from District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the fiscal year ended September 30, 2017. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30	
2016	\$ 342,082
2017	342,082
2018	342,082
2019	292,429
2020	(12,706)
<i>Thereafter</i>	(25,412)
	<u>\$ 1,280,557</u>

Note 11. Summary Disclosure of Significant Contingencies

Risk Management

The District is exposed to various risks of loss related to torts; theft, damage and destruction of assets; errors and omissions; injuries to employees; life and health of employees; and natural disasters. The District purchases commercial insurance for property damage and auto, subject to various policy limits and deductibles. The District also purchases commercial insurance for general liability claims with coverage up to \$1 million per occurrence and \$3 million aggregate subject to various deductibles per occurrence.

The District purchases commercial insurance for workers' compensation benefits with a \$1,000,000 occurrence and per employee policy limit. For the last three years, settled claims have not exceeded commercial insurance coverage, nor has there been any reduction in insurance coverage.

Contingencies

The District participates in a number of federal and state financial assistance programs. These programs are subject to financial and compliance audits by the grantor agencies. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Notes to Financial Statements

Note 12. Healthcare Assistance Program

The healthcare assistance program was established by the District to provide health care services to the indigent residents of Montgomery County. The District entered into contracts with various healthcare providers to provide healthcare services to Montgomery County indigents. Qualifications for the program are based on income level, citizenship, county residency, medical need and financial resources. In conjunction with the sale of the Medical Center Hospital in Conroe (now Conroe Regional Medical Center) to Health Trust on May 26, 1993, the District entered into an Indigent Care Agreement with Health Trust and its successors. The 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.

Note 13. Operating Lease

On October 1, 2009, the District, as the lessor, entered into a long-term lease agreement of radio communication equipment for 16 years. The District's cost for this equipment and related depreciation are shown below:

Radio tower communications equipment	\$ 5,370,623
Accumulated depreciation	<u>1,122,396</u>
Total	<u>\$ 4,248,227</u>

The District reports this lease as an operating lease based on the terms of the agreement. Accordingly, the assets noted above are recorded in the District's capital assets. Revenue of \$144,000 is recognized each year related to the lease of the radio communication equipment plus \$60,000 for management fees and costs.

This Page Intentionally Left Blank

Required Supplementary Information

MONTGOMERY COUNTY HOSPITAL DISTRICT
Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget to Actual – General Fund
Year Ended September 30, 2016

Exhibit E-1

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 35,563,381	\$ 35,563,381	\$ 35,754,407	\$ 191,026
Program revenues	20,239,439	21,820,519	23,227,678	1,407,159
Charges for Services	226,072	226,072	235,187	9,115
Intergovernmental	400,000	400,000	531,924	131,924
Investment earnings	12,769	12,769	247,924	235,155
Miscellaneous	28,500	28,500	246,997	218,497
Total revenues	<u>56,470,161</u>	<u>58,051,241</u>	<u>60,244,117</u>	<u>2,192,876</u>
EXPENDITURES				
Current				
Administration	3,271,184	6,047,423	2,930,873	3,116,550
Healthcare assistance	8,513,963	7,076,791	7,035,556	41,235
Emergency medical services	27,252,782	27,683,808	27,380,035	303,773
Radio, facilities, and information technology	5,006,370	4,404,340	4,290,047	114,293
Public health and emergency preparedness	629,153	681,141	681,342	(201)
Debt service				
Principal retirement	839,403	850,513	850,512	1
Interest and fiscal charges	82,918	82,918	74,165	8,753
Capital outlay	5,869,160	5,572,745	5,995,804	(423,059)
Total expenditures	<u>51,464,933</u>	<u>52,399,679</u>	<u>49,238,334</u>	<u>3,161,345</u>
Excess of revenues over expenditures	5,005,228	5,651,562	11,005,783	5,354,221
OTHER FINANCING SOURCES				
Capital lease	250,000	250,000	96,794	(153,206)
Proceeds from sale of assets	16,000	16,000	429,376	413,376
Total other financing sources	<u>266,000</u>	<u>266,000</u>	<u>526,170</u>	<u>260,170</u>
Net change in fund balance	5,271,228	5,917,562	11,531,953	5,614,391
Fund balance - beginning	<u>28,654,323</u>	<u>28,654,323</u>	<u>28,654,323</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 33,925,551</u>	<u>\$ 34,571,885</u>	<u>\$ 40,186,276</u>	<u>\$ 5,614,391</u>

The Notes to Required Supplementary Information are an integral part of this statement.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Exhibit F-1

Schedule of Changes in Net Pension Liability and Related Ratios
Year Ended September 30, 2016

	2016*	2015*
Total pension liability		
Service cost	\$ 2,241,909	\$ 1,935,546
Interest (on the total pension liability)	1,439,974	1,105,667
Effect of plan changes	(124,742)	473,611
Effect of economic/demographic (gains) or losses	(1,013,480)	827,063
Effect of assumptions changes or inputs	176,666	-
Refund of contributions	(103,230)	-
Benefit payments, including refunds of employee contributions	(18,562)	(193,020)
Net change in total pension liability	<u>2,598,535</u>	<u>4,148,867</u>
Total pension liability - beginning	<u>16,712,585</u>	<u>12,563,718</u>
Total pension liability - ending (a)	<u>\$ 19,311,120</u>	<u>\$ 16,712,585</u>
Plan fiduciary net position		
Contributions - district	\$ 1,406,230	\$ 1,093,580
Contributions - employee	1,333,823	1,190,523
Net investment income	(197,756)	822,292
Benefit payments, including refunds of employee contributions	(121,792)	(193,020)
Administrative expense	(11,770)	(10,485)
Other	270	1,284
Net change in plan fiduciary net position	<u>2,409,005</u>	<u>2,904,174</u>
Plan fiduciary net position - beginning	<u>14,970,793</u>	<u>12,066,619</u>
Plan fiduciary net position - ending (b)	<u>\$ 17,379,798</u>	<u>\$ 14,970,793</u>
Net pension liability - ending (a) - (b)	<u>\$ 1,931,322</u>	<u>\$ 1,741,792</u>
Plan fiduciary net position as a percentage of total pension liability	90.00%	89.58%
Covered employee payroll	19,054,613	17,006,833
Net pension liability as a percentage of covered employee payroll	10.14%	10.24%

*GASB Statement No. 68 requires 10 years of data; however, we have shown only the years for which the GASB statements have been implemented. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the plan's measurement date, December 31.

MONTGOMERY COUNTY HOSPITAL DISTRICT
 Schedule of District Contributions to Texas County
 and District Retirement System (TCDRS)
 Year Ended September 30, 2016

Exhibit F-2

	2016	2015
Actuarially determined contribution	\$ 1,611,799	\$ 1,306,500
Contributions in relation to the actuarially determined contributions	<u>(1,611,799)</u>	<u>(1,306,500)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 19,339,917	\$ 18,236,372
Contributions as a percentage of covered-employee payroll	8.33%	7.16%

Notes to Schedule of Contributions

GASB Statement No. 68 requires 10 years of data; however, two years of data is presented as the data for the years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the District's fiscal year end, September 30.

Valuation Date: Actuarially determined contributions rates are calculated as of December 31 and become effective in January, 13 months later.

Note 1. Budget

A. Budgetary Information

The District adopts a budget each fiscal year in accordance with Generally Accepted Accounting Principles (GAAP). Expenditures for all departments fell 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 committed a portion of fund balance for outstanding encumbrances of \$536,808 and assigned a portion of fund balance for outstanding encumbrances of \$354,041 in the general fund.

The general fund had the following significant variances between final budget and actual:

- The administration actual expenses were below budget due to an open position and operating expenses running less than expected.
- Healthcare assistance actual expenditures were less than budget due to fewer patients utilizing HCAP services than expected.
- EMS expenditures were under budget mainly because operating expenses ran less than expected and some capital expenditures being postponed.

MONTGOMERY COUNTY HOSPITAL DISTRICT
 Notes to the Required Supplementary Information

B. Pensions

Valuation Date

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contributions are reported:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12.8 years
Asset valuation method	5 year smoothed non-asymptotic
Inflation	3.00%
Salary increases	4.9% average, including inflation
Investment rate of return	8.00%, net of investment expense
Cost-of-living adjustments	Cost-of-living adjustments for Montgomery County Hospital District are considered to be substantively automatic under GASB 68. Therefore, no assumption for future cost-of-living adjustment is included in the GASB calculations. No assumptions for future cost-of-living adjustments is included in the funding valuation.
Depositing members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service retirees, beneficiaries and Non-depositing Members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled retirees	P-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Overall Compliance and Internal Control Section



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

The Board of Directors of
Montgomery County Hospital District
1400 South Loop 336 West
Conroe, Texas 77304

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of Montgomery County Hospital District (the District) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated April 25, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be material weakness 2016-001.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Board of Directors of
Montgomery County Hospital District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yours truly,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
April 25, 2017

This Page Intentionally Left Blank

MONTGOMERY COUNTY HOSPITAL DISTRICT

Schedule of Findings and Responses

Year Ended September 30, 2016

SECTION I – SUMMARY OF AUDITORS’ RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditors’ report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Significant Deficiency(ies) identified that are not considered to be material weaknesses	None reported
b. Material Weakness(es) identified	2016-001
3. Noncompliance material to the Financial Statements noted	None
SECTION II – FINANCIAL STATEMENT FINDINGS	
FINDINGS RELATED TO INTERNAL CONTROL OVER FINANCIAL REPORTING	
2016-001 CAPITAL ASSETS	
<p><u>Condition:</u> A capital asset schedule that details cost and accumulated depreciation in such a manner that it can be traced to the financial records is not adequately maintained.</p> <p><u>Criteria:</u> Defined business practices and generally accepted accounting principles dictate that capital assets (property, plant and equipment, and the associated accumulated depreciation) should be supported by an accurate detail listing that agrees to the total on the financial records.</p> <p><u>Cause:</u> A cumbersome Excel spreadsheet is used by the accounting department, but it is ineffective and not properly maintained with additions and deletions.</p> <p><u>Effect of Condition:</u> Failure to maintain a detailed asset listing prohibits an accurate portrayal of the total amount the District has invested in capital assets. A complete and accurate capital asset detail is a necessary tool to enable management to properly safeguard its capital assets and plan for future needs.</p> <p><u>Repeat Finding:</u> Note this finding was identified in the prior year as 2015-001.</p> <p><u>Recommendation:</u> We recommend the District implement a capital asset/depreciation software. Management should also perform a physical inventory count of the property and equipment the District has recorded to ensure that it is still in existence. We also recommend the capital assets listing be reconciled to the financial records monthly, or at least quarterly.</p> <p><u>Views of Responsible Officials:</u> See Corrective Action Plan.</p>	
FINDINGS RELATED TO COMPLIANCE WITH LAWS AND REGULATIONS	
None reported	

MONTGOMERY COUNTY HOSPITAL DISTRICT

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2016

PRIOR YEAR FINDINGS

2015-001 CAPITAL ASSETS

Condition: A capital asset schedule that details cost and accumulated depreciation in such a manner that it can be traced to the financial records is not adequately maintained.

Status of Prior Finding: This finding was not corrected in the 2016 fiscal year.

MONTGOMERY COUNTY HOSPITAL DISTRICT

Corrective Action Plan

Year Ended September 30, 2016

CORRECTIVE ACTION PLAN

Audit Finding Reference: 2016-001 CAPITAL ASSETS

Contact Person:

Brett Allen

Chief Financial Officer

Planned Corrective Action:

Montgomery County Hospital District (MCHD) has historically maintained its fixed assets and associated depreciation in an Excel spreadsheet rather than in dedicated fixed asset software. The deficiencies in this tool were recognized prior to this audit, but other tasks and projects were deemed to require more immediate attention. As the result of these other tasks and projects, the District's accounting processes have been advanced such that best practices have been put in place.

Due to the size and scope of this project, it would be difficult for MCHD staff to complete this project without utilizing outside help. MCHD will enlist the aid of outside contract accounting to help analyze the District's assets and reconcile to the property and equipment listed on the fixed asset Excel spreadsheet. Once complete, the reconciled asset listing will be loaded into the fixed asset module, which is a component of the accounting software utilized by MCHD.

Estimated Date of Completion:

MCHD has completed a project plan to transfer fixed assets into the current accounting software system by September 30, 2017. MCHD is working with the accounting software company and has budgeted amounts to support the implementation cost.