

Montgomery County Hospital District

Annual Financial Report

Year Ended September 30, 2017

Montgomery County Hospital District
 Annual Financial Report
 For the Fiscal Year Ended August 31, 2017
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Financial Section

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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, 2017, 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, 2017, 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 March 27, 2018 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
March 27, 2018

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, 2017. 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, 2017 by \$82,974,007 (net position). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net position also reflects \$33,173,919 that is net investment in capital assets. With the presentation of the investment in capital assets, unrestricted net position amounts to \$49,798,883 (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 \$55,574,754 while expenses were \$48,289,933 resulting in an increase in total net position of \$7,284,821 from operations.
- In contrast to the government-wide statements, the District's governmental fund reported an ending fund balance at September 30, 2017 of \$46,021,062, an increase of \$5,834,786 from the prior year. Approximately 64% of the ending balance, \$29,527,921, is unassigned.
- At year-end, the unassigned General Fund balance was 58% 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 \$82,974,007, at September 30, 2017, as shown in the table that follows.

Montgomery County Hospital District's Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 52,001,102	60	\$ 44,722,361	54	\$ 7,278,741	16
Non-current capital assets	35,362,033	40	37,728,264	46	(2,366,231)	(6)
Total assets	<u>87,363,135</u>	<u>100</u>	<u>82,450,625</u>	<u>100</u>	<u>4,912,510</u>	
Total deferred outflows of resources	3,061,612	100	3,410,218	100	(348,606)	(10)
Other liabilities	3,043,607	49	3,225,738	35	(182,131)	(6)
Long-term liabilities	3,200,100	51	6,059,124	65	(2,859,024)	(47)
Total liabilities	<u>6,243,707</u>	<u>100</u>	<u>9,284,862</u>	<u>100</u>	<u>(3,041,155)</u>	
Total deferred inflows of resources	1,207,033	100	886,795	100	320,238	36
Net position:						
Net investment in capital assets	33,173,919	40	34,510,462	46	(1,336,543)	(4)
Restricted	1,205	-	1,205	-	-	-
Unrestricted	<u>49,798,883</u>	<u>60</u>	<u>41,177,519</u>	<u>54</u>	<u>8,621,364</u>	<u>21</u>
Total net position	\$ 82,974,007	100	\$ 75,689,186	100	\$ 7,284,821	

The District's total assets of \$87,363,135 are largely comprised of capital assets net of accumulated depreciation of \$35,362,033, or 40% 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 \$3,200,100 or 49% of total liabilities, largely decreased from prior fiscal year due to additional contributions made by the District towards its long-term pension liability. 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, 2017, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$82,974,007. Approximately 40% of total net position or \$33,173,919 represents net investments in capital assets. The \$49,798,883 (60%) 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 \$7,284,821. Key components of this increase are as follows:

Montgomery County Hospital District's Changes in Net Position

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services:						
Administration	\$ 222,837	-	\$ 221,836	-	\$ 1,001	0
Healthcare assistance	10,383	-	9,511	-	872	9
Emergency medical services	11,764,855	22	15,128,309	24	(3,363,454)	(22)
Radio, facilities, and information technology	539,036	1	1,164,072	2	(625,036)	(54)
Operating grants and contributions:						
Emergency medical services	4,540,181	8	7,528,254	12	(2,988,073)	(40)
Public health emergency preparedness	-	-	2,336	-	(2,336)	(100)
General revenues:						
Property taxes	36,903,292	66	35,822,069	58	1,081,223	3
Grants and contributions not restricted to a specific program	825,315	1	529,588	1	295,727	56
Investment earnings	317,958	1	247,924	-	70,034	28
Miscellaneous	442,464	1	1,619,139	3	(1,176,675)	(73)
Special item	8,433	-	-	-	8,433	100
Total revenues	<u>55,574,754</u>	<u>100</u>	<u>62,273,038</u>	<u>100</u>	<u>(6,698,284)</u>	
Expenses						
Administration	4,226,539	9	3,400,558	7	825,981	24
Healthcare assistance	5,852,237	12	7,030,572	15	(1,178,335)	(17)
Emergency medical services	30,692,353	64	28,396,929	63	2,295,424	8
Radio, facilities, and information technology	6,842,262	14	6,195,546	14	646,716	10
Public health and emergency preparedness	615,973	1	682,059	1	(66,086)	(10)
Interest and fiscal charges	60,569	-	74,165	-	(13,596)	(18)
Total expenses	<u>48,289,933</u>	<u>100</u>	<u>45,779,829</u>	<u>100</u>	<u>2,510,104</u>	
Change in net position	7,284,821		16,493,209		(9,208,388)	
Net position - beginning	<u>75,689,186</u>		<u>59,195,977</u>		<u>16,493,209</u>	
Net position - ending	\$ 82,974,007		\$ 75,689,186		\$ 7,284,821	

The District's total revenues of \$55,574,754 were all from governmental activities. Property tax revenue accounts for \$36,903,292, or 66%, and emergency medical services revenue accounts for \$11,764,855, or 22% of total government-wide revenues. Total revenues decreased \$6,698,284 over the prior year. The decrease in revenues resulted from a decrease in program fees related to emergency medical services due to the lowering of the charge rates used.

Total expenses for the year ended September 30, 2017 totaled \$48,289,933. Healthcare assistance accounted for \$5,852,237 or 12%, emergency medical services accounted for \$30,692,353, or 64%, and radio, facilities, and information technology accounted for \$6,842,262, or 14% of total government-wide expenses. Total expenses went up due to increased EMS staffing in response to population growth in the county.

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 \$29,527,921 and total fund balance was \$46,021,062. 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 58% and 91% of total general fund expenditures, respectively. The fund balance of the District's general fund increased by \$5,834,786 during the current fiscal year. For the most part, increases in assessed property values and decrease in healthcare assistance expenditures 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. Significant differences noted between the original budget and the final amended budget are largely related to changes made to increase administration expenditures for additional pension contributions made and emergency medical services expenditures due to increased services provided.

The following represents the differences between the final amended budget and the actual expenditures for the General Fund for the year ended September 30, 2017:

- 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, 2017 amounts to \$35,362,033 (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 \$1,050,140
- Equipment purchased in the amount of \$671,206

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

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 2,899,985	8	\$ 3,499,173	9	\$ (599,188)	(17)
Construction in progress	358,252	1	-	-	358,252	100
Buildings and improvements	21,043,048	60	21,307,658	56	(264,610)	(1)
Equipment	3,970,533	11	5,155,024	14	(1,184,491)	(23)
Vehicles	2,915,541	8	3,350,285	9	(434,744)	(13)
Communication system	4,174,674	12	4,416,124	12	(241,450)	(5)
Totals	\$ 35,362,033	100	\$ 37,728,264	100	\$ (2,366,231)	

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

Long-term Liabilities

At September 30, 2017, the District had total outstanding long-term liabilities in the amount of \$3,200,100, which was related to capital leases, compensated absences and healthcare claims. The following table summarizes the District's long-term liabilities.

Montgomery County Hospital District's Outstanding Long-term Liabilities

	Governmental Activities					
	2017		2016		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Capital leases	\$ 2,188,114	68	\$ 3,217,802	78	\$ (1,029,688)	(32)
Compensated absences	916,439	29	910,000	22	6,439	1
Healthcare claims	95,547	3	-	-	95,547	100
Total	\$ 3,200,100	100	\$ 4,127,802	100	\$ (927,702)	

The District's total long-term liabilities decreased by \$927,702 during the 2017 fiscal year, mostly due to a decrease in the District's capital lease obligations and net pension liability. 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 325 employees, 192 of which are EMS responders.
- The unemployment rate for Montgomery County is currently 4.1%, which is a decrease from the rate of 5.4% last year. This is greater than the State's average unemployment of 4.0%.
- The population of Montgomery County at September 30, 2017 is approximately 576,699.
- A maintenance and operations tax rate of \$.0664 was adopted for the 2017-2018 fiscal year.

The District's budgeted fund balance for the 2018 fiscal year is expected to decrease by approximately \$3,562,680.

Requests for Information

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

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Basic Financial Statements

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Montgomery County Hospital District

Statement of Net Position

September 30, 2017

Exhibit A-1

	Primary Government Governmental Activities	Component Unit MCPHD
ASSETS		
Cash and cash equivalents	\$ 11,128,744	\$ 1,053,995
Investments	28,793,363	-
Receivables, net	9,401,375	7,500
Intergovernmental receivables	-	108,456
Due from component unit	206,275	-
Inventories	635,175	-
Prepaid expenses	170,012	442
Net pension asset	1,666,158	-
Capital assets, net of accumulated depreciation		
Land and improvements	2,899,985	-
Construction in progress	358,252	-
Buildings and improvements	21,043,048	-
Equipment	3,970,533	-
Vehicles	2,915,541	-
Communication system	4,174,674	-
Total capital assets	<u>35,362,033</u>	<u>-</u>
Total assets	<u>87,363,135</u>	<u>1,170,393</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources for pensions	3,061,612	-
Total deferred outflows of resources	<u>3,061,612</u>	<u>-</u>
LIABILITIES		
Accounts payable and accrued liabilities	2,980,418	23,543
Unearned revenues	52,498	6,734
Accrued interest	10,691	-
Due to primary government	-	206,275
Noncurrent liabilities		
Due within one year		
Capital lease payable	1,058,145	-
Compensated absences	916,439	-
Healthcare claims	95,547	3,110
Due in more than one year		
Capital lease payable	<u>1,129,969</u>	<u>-</u>
Total liabilities	<u>6,243,707</u>	<u>239,662</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources for pensions	1,207,033	-
Total deferred inflows of resources	<u>1,207,033</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	33,173,919	-
Restricted - grants	1,205	6,734
Unrestricted	<u>49,798,883</u>	<u>923,997</u>
TOTAL NET POSITION	\$ 82,974,007	\$ 930,731

The Notes to Financial Statements are an integral part of this statement.

Montgomery County Hospital District

Statement of Activities

Year Ended September 30, 2017

FUNCTIONS/PROGRAMS	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT			
Governmental activities			
Administration	\$ 4,226,539	\$ 222,837	\$ -
Healthcare assistance	5,852,237	10,383	-
Emergency medical services	30,692,353	11,764,855	4,540,181
Radio, facilities, and information technology	6,842,262	539,036	-
Public health and emergency preparedness	615,973	-	-
Interest and fiscal charges	60,569	-	-
Total governmental activities	<u>48,289,933</u>	<u>12,537,111</u>	<u>4,540,181</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 48,289,933</u>	<u>\$ 12,537,111</u>	<u>\$ 4,540,181</u>
COMPONENT UNIT			
Montgomery County Public Health District	<u>\$ 2,045,971</u>	<u>\$ 29,799</u>	<u>\$ 2,014,198</u>

General revenues

Property taxes

Grants and contributions not restricted to a specific program

Investment earnings

Miscellaneous

Special Item

Total general revenues

Change in net position

Net position - beginning

NET POSITION - ENDING

Net (Expense) Revenue and Changes in Net Position		Component Unit
Governmental Activities	Total	MCPHD
\$ (4,003,702)	\$ (4,003,702)	
(5,841,854)	(5,841,854)	
(14,387,317)	(14,387,317)	
(6,303,226)	(6,303,226)	
(615,973)	(615,973)	
(60,569)	(60,569)	
<hr/>	<hr/>	<hr/>
(31,212,641)	(31,212,641)	
		\$ (1,974)
36,903,292	36,903,292	-
825,315	825,315	-
317,958	317,958	-
442,464	442,464	90,288
8,433	8,433	-
<hr/>	<hr/>	<hr/>
38,497,462	38,497,462	90,288
7,284,821	7,284,821	88,314
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75,689,186	75,689,186	842,417
<hr/>	<hr/>	<hr/>
\$ 82,974,007	\$ 82,974,007	\$ 930,731

Montgomery County Hospital District

Balance Sheet - Governmental Fund

September 30, 2017

Exhibit C-1

	General Fund
ASSETS	
Cash and cash equivalents	\$ 11,128,744
Investments	28,793,363
Receivables	
Taxes receivable, net	734,144
EMS receivable, net	4,111,116
Other receivables, net	4,556,115
Due from component unit	206,275
Inventories	635,175
Prepaid items	170,012
TOTAL ASSETS	\$ 50,334,944
LIABILITIES	
Accounts payable and accrued liabilities	\$ 2,980,418
Unearned revenue	52,498
Total liabilities	3,032,916
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	734,144
Unavailable revenue - long-term receivable	546,822
Total deferred inflows of resources	1,280,966
FUND BALANCE	
Nonspendable - inventories	635,175
Nonspendable - prepaid items	170,012
Restricted - grants	1,205
Committed - capital replacement	1,890,760
Committed - capital maintenance	170,583
Committed - open purchase orders	690,852
Committed - uncompensated care	7,580,000
Committed - catastrophic events	5,000,000
Assigned - open purchase orders	354,554
Unassigned	29,527,921
Total fund balance	46,021,062
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	\$ 50,334,944

The Notes to Financial Statements are an integral part of this statement.

Montgomery County Hospital District**Exhibit C-2**

Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position
September 30, 2017

TOTAL FUND BALANCE - GOVERNMENTAL FUNDS BALANCE SHEET

\$ 46,021,062

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	\$ 53,604,296
Accumulated depreciation of governmental capital assets	<u>(18,242,263)</u> 35,362,033

The net pension asset resulting from contributions in excess of the annual required contribution is not a financial resource and is not reported in the funds.

1,666,158

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.

1,280,966

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	\$ (2,188,114)
Accrued interest on capital leases	(10,691)
Compensated absences	(916,439)
Healthcare claims	(95,547)
Deferred resource inflow related to net pension liability	<u>(1,207,033)</u> (4,417,824)

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.

3,061,612

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 82,974,007

Montgomery County Hospital District
 Statement of Revenues, Expenditures and Changes
 in Fund Balance – Governmental Fund
 Year Ended September 30, 2017

Exhibit C-3

	<u>General Fund</u>
REVENUES	
Property taxes	\$ 36,901,788
Program revenues	17,626,193
Charges for services	222,837
Intergovernmental	825,315
Investment earnings	317,958
Miscellaneous	442,464
Total revenues	<u>56,336,555</u>
EXPENDITURES	
Current	
Administration	6,180,837
Healthcare assistance	5,902,760
Emergency medical services	29,678,155
Radio, facilities, and information technology	4,988,183
Public health and emergency preparedness	617,678
Debt service	
Principal retirement	1,029,688
Interest and fiscal charges	74,639
Capital outlay	2,079,598
Total expenditures	<u>50,551,538</u>
Excess of revenues over expenditures	<u>5,785,017</u>
OTHER FINANCING SOURCES	
Proceeds from sale of assets	49,769
Total other financing sources	<u>49,769</u>
Net change in fund balance	<u>5,834,786</u>
Fund balance - beginning	<u>40,186,276</u>
FUND BALANCE - ENDING	<u>\$ 46,021,062</u>

The Notes to Financial Statements are an integral part of this statement.

Montgomery County Hospital District

Exhibit C-4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities
Year Ended September 30, 2017

TOTAL NET CHANGES IN FUND BALANCE - GOVERNMENTAL FUND

\$ 5,834,786

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.

(54,142)

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	\$ 2,079,598	
Depreciation expense	<u>(4,404,493)</u>	(2,324,895)

The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position. (41,336)

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. 1,029,688

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The (increase) decrease in interest reported in the statement of activities consist of the following:

Accrued interest on capital leases decreased	14,070
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.	(6,439)
The (increase) decrease in self-insured health coverage 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.	(95,547)
The net change in net pension asset 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	\$ (320,238)	
Deferred outflows increased (decreased)	(348,606)	
Net pension liability (increased) decreased	<u>3,597,480</u>	<u>2,928,636</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 7,284,821

The Notes to Financial Statements are an integral part of this statement.

Montgomery County Hospital District

Statement of Fiduciary Net Position

Fiduciary Fund

September 30, 2017

Exhibit D-1

	Deferred Compensation Plan
ASSETS	
Cash and cash equivalents	\$ 117,623
Total assets	<u>117,623</u>
LIABILITIES	
Due to others	-
Total liabilities	<u>-</u>
NET POSITION	
Held in trust for benefits and other purposes	<u>117,623</u>
TOTAL NET POSITION	<u>\$ 117,623</u>

Montgomery County Hospital District
 Statement of Changes in Fiduciary Net Position
 Fiduciary Fund
 Year Ended September 30, 2017

Exhibit D-2

	Deferred Compensation Plan
ADDITIONS	
Investment earnings	
Interest	\$ 8,020
Net increase (decrease) in the fair value of investments	315
Total investment earnings	<u>8,335</u>
 Total additions	 <u>8,335</u>
DEDUCTIONS	
Benefits	31,151
Forfeitures	13,543
Total deductions	<u>44,694</u>
 Change in net position	 (36,359)
 Net position - beginning	 <u>153,982</u>
NET POSITION - ENDING	\$ 117,623

The Notes to Financial Statements are an integral part of this statement.

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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;
- Ensure a competent workforce for the provision of essential public health services;

Montgomery County Hospital District

Notes to the Financial Statements

- Research new insights and innovative solutions to community health problems;
- Evaluate the effectiveness, accessibility, and quality or 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. 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.

Montgomery County Hospital District

Notes to the Financial Statements

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 \$5,000 and an estimated useful life in excess of five 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.

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:

Assets	Years
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.

Montgomery County Hospital District

Notes to the Financial Statements

6. Pensions

For purposes of measuring the net pension asset (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.

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.

Montgomery County Hospital District

Notes to the Financial Statements

G. 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.

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, 2017 was \$0.0665 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 a resolution following the notice and hearing requirements set forth in section 1063.152 of the District's enabling act.
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).

Montgomery County Hospital District

Notes to the Financial Statements

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.

Note 3. Deposits and Investments

Primary Government

At September 30, 2017, the carrying amount of the District's deposits (cash, interest-bearing savings accounts, and money market accounts) was \$11,128,744 and the bank's balances totaled \$11,749,664. At September 30, 2017, 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.

Montgomery County Hospital District

Notes to the Financial Statements

Certain investment types are not required to be measured at fair value; these include money market funds, certain investment pools and certificates of deposits, 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.

The District's investments are in investment pools and certificates of deposit that are non-negotiable and are not subject to fair value measurements as presented in the table below. The District's investment balances and weighted average maturity of such investments are as follows:

Investment Type	Primary Government	Component Unit	Total	Weighted Average Maturity (Days)
Investments measured at fair value				
Certificates of deposit	\$ 5,006,374	\$ -	\$ 5,006,374	91
Investments measured at amortized cost				
External investment pools				
TexPool	11,898,310	-	11,898,310	37
Investments measured at net asset value				
External investment pools				
TexStar	11,888,679	-	11,888,679	28
Total Value	\$ 28,793,363	\$ -	\$ 28,793,363	
Portfolio weighted average maturity				0.43

Certificates of deposit are categorized in Level 2 of the fair value hierarchy.

TexPool is an external investment pool that measures for financial reporting purposes all of its investments at amortized cost. TexPool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergencies.

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 2017, 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, 2017.

Montgomery County Hospital District

Notes to the Financial Statements

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, 2017, 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.

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, 2017, the MCPHD bank balance was \$1,053,795 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, 2017, are as follows:

	Receivables	Less Allowance for Uncollectibles	Net Receivables
Receivables:			
Taxes	\$ 1,141,209	\$ (407,065)	\$ 734,144
Emergency medical service fees	8,094,750	(3,983,634)	4,111,116
Other	4,556,115	-	4,556,115
Totals	\$ 13,792,074	\$ (4,390,699)	\$ 9,401,375

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 \$0.0665 per \$100 valuation. Taxes for fiscal year 2017 were levied on property within the District having an assessed valuation of approximately \$55 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 3,739 patient encounters per year. For the year ended September 30, 2017, the District recognized as revenue and MCPHD recognized as expense at total \$1,121,700 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, 2017 were as follows:

Primary Government/Component Unit	Receivables	Payables
District - General Fund	\$ 206,275	\$ -
Component unit - MCPHD	- <u>206,275</u>	
Totals	\$ 206,275	\$ 206,275

Note 7. Capital Assets

Capital assets activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases and Reklass	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 3,499,173	\$ -	\$ (599,188)	\$ 2,899,985
Construction in progress	- <u>358,252</u>			358,252
Total capital assets, not being depreciated	3,499,173	358,252	(599,188)	3,258,237
Capital assets, being depreciated:				
Buildings and improvements	25,850,087	- <u>671,206</u>	324,023	26,174,110
Equipment	15,084,757	671,206	(4,649,174)	11,106,789
Vehicles	6,841,770	1,050,140	(1,040,962)	6,850,948
Communication system	8,510,530	- <u>(2,296,318)</u>	(2,296,318)	6,214,212
Total capital assets being depreciated	56,287,144	1,721,346	(7,662,431)	50,346,059
Less accumulated depreciation for:				
Buildings and improvements	(4,542,429) <u>(9,929,733)</u>	(861,734) (1,851,664)	273,101 4,645,141	(5,131,062) (7,136,256)
Equipment	(3,491,485)	(1,468,216)	1,024,294	(3,935,407)
Vehicles	(4,094,406)	(222,879)	2,277,747	(2,039,538)
Total accumulated depreciation	(22,058,053) <u>34,229,091</u>	(4,404,493) (2,683,147)	8,220,283 557,852	(18,242,263) 32,103,796
Government activities capital assets, net	\$ 37,728,264	\$ (2,324,895)	\$ (41,336)	\$ 35,362,033

Depreciation expense was charged to functions/programs for the fiscal year 2017 as follows:

Governmental activities:	
Administration	\$ 102,259
Healthcare assistance	3,028
Emergency medical services	2,350,699
Radio, facilities and information technology	1,948,507
Total	\$ 4,404,493

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, 2017 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 3,217,802	\$ -	\$ (1,029,688)	\$ 2,188,114	\$ 1,058,145
Compensated absences	910,000	1,658,243	(1,651,804)	916,439	916,439
Healthcare claims	-	1,955,857	(1,860,310)	95,547	95,547
Governmental activities long-term liabilities	\$ 4,127,802	\$ 3,614,100	\$ (4,541,802)	\$ 3,200,100	\$ 2,070,131
Component unit activities:					
Healthcare claims	\$ -	\$ 63,657	\$ (60,547)	\$ 3,110	\$ 3,110
Component unit activities long-term liabilities	\$ -	\$ 63,657	\$ (60,547)	\$ 3,110	\$ 3,110

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	\$ 440,774	\$ -	\$ (215,527)	\$ 225,247
P-25 Equipment	838,208	-	(367,720)	470,488
EMS Station 40	984,033	-	(254,364)	729,669
EMS Station 43	954,787	-	(192,077)	762,710
Totals	\$ 3,217,802	\$ -	\$ (1,029,688)	\$ 2,188,114

The future debt service requirements for capital leases as of September 30, 2017 are noted below:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,058,145	\$ 46,239	\$ 1,104,384
2019	563,005	19,093	582,098
2020	409,815	8,107	417,922
2021	157,149	1,499	158,648
Totals	\$ 2,188,114	\$ 74,938	\$ 2,263,052

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, 2017, include the following:

Building and improvements	\$ 3,493,940
Equipment	3,074,453
Less: Accumulated depreciation	(2,571,595)
Total	\$ 3,996,798

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 \$117,623 at September 30, 2017, 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 738 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 service 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, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	187
Active employees	309
Total	503

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 8.63 percent and \$1,705,899 under the contractually required contributions for the calendar year 2016. In addition to the contractually required contributions, the District elected to contribute \$2.83 million to fully fund the pension obligation in calendar year 2016, resulting in a net pension asset of \$1.67 million as of September 30, 2017.

The deposit rate payable by the employee member for calendar year 2016 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, 2016 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, 2016, 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 projected to 2014 with 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	RP-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 2017 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 most recent analysis was performed in 2013. 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	13.50 %	4.70%
Private equity	16.00	7.70%
Global equities	1.50	5.00%
International equities - developed markets	10.00	4.70%
International equities - emerging markets	7.00	5.70%
Investment - grade bonds	3.00	0.60%
High-yield bonds	3.00	3.70%
Opportunistic credit	2.00	3.83%
Direct lending	10.00	8.15%
Distressed debt	3.00	6.70%
REIT equities	2.00	3.85%
Master limited partnerships	3.00	5.60%
Private real estate partnerships	6.00	7.20%
Hedge funds	20.00	3.85%
Total	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, 2015	\$ 19,311,120	\$ 17,379,798	\$ 1,931,322
Changes for the year			
Service cost	2,759,688	-	2,759,688
Interest	1,662,372	-	1,662,372
Effect of economic demographic gains or losses	(510,769)	-	(510,769)
Refunds of contributions	(260,640)	(260,640)	-
Benefit payments	(26,925)	(26,925)	-
Administrative expense	-	(14,145)	14,145
Member contributions	-	1,385,264	(1,385,264)
Net investment income	-	1,300,958	(1,300,958)
Employer contributions	-	4,539,035	(4,539,035)
Other changes	-	297,659	(297,659)
Net changes	<u>3,623,726</u>	<u>7,221,206</u>	<u>(3,597,480)</u>
Balance at December 31, 2016	\$ 22,934,846	\$ 24,601,004	\$ (1,666,158)

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.

	Current		
	1% Decrease (7.10%)	Discount Rate (8.10%)	1% Increase (9.10%)
District's net pension liability / (asset)	\$ 3,321,423	\$ (1,666,158)	\$ (5,581,220)

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

For the fiscal year ended September 30, 2017, the District recognized pension expense of \$2,928,636.

At September 30, 2017, 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	\$ 551,375	\$ 1,207,033
Change in assumptions	132,497	-
Net difference between projected and actual earnings on pension plan investments	1,288,238	-
Contributions made subsequent to the measurement date	1,089,502	-
Totals	\$ 3,061,612	\$ 1,207,033

Montgomery County Hospital District

Notes to the Financial Statements

The \$1,089,502 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, 2018. 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,	
2018	\$ 346,617
2019	346,617
2020	296,965
2021	(8,171)
2022	(76,552)
Thereafter	(140,399)
Total	\$ 765,077

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.

Health Insurance

During 2017, employees of the District were covered by a partially self-insured health insurance plan. The District paid administrative fees and the cost of healthcare claims. Participating employees authorized payroll deductions to partially offset the costs paid by the District. All contributions were paid to a third party administrator acting on behalf of the District. The contract between the District and the third party administrator is renewable annually.

The District was protected against catastrophic individual and aggregate loss by stop-loss coverage up to \$100,000 per individual and \$4,213,473 in aggregate through a commercial insurer licensed to do business in Texas in accordance with the Texas Insurance Code. Estimates of claims payable and of claims incurred but not reported at September 30, 2017, are reflected as accrued healthcare claims. Because actual claims liabilities depend on such complex factors as inflation, changes in legal requirements and damage awards, the process used in computing claims liability is an estimate.

Changes in balances of healthcare claims are as follows:

	2017
Healthcare claims, beginning of year	\$ -
Incurred claims	2,019,514
Claim payments	(1,920,857)
Healthcare claims, end of year	\$ 98,657

Montgomery County Hospital District

Notes to the Financial Statements

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.

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	\$ 5,367,314
Less: Accumulated depreciation	(1,293,357)
Total	\$ 4,073,957

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.

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Required Supplementary Information

Montgomery County Hospital District

Exhibit E-1

Schedule of Revenues, Expenditures and Changes
in Fund Balance – Budget to Actual – General Fund
Year Ended September 30, 2017

	Budgeted Amounts			Variance Final Budget - Positive (Negative)	
	Original	Final	Actual		
REVENUES					
Property taxes	\$ 36,700,904	\$ 36,700,904	\$ 36,901,788	\$ 200,884	
Program revenues	15,897,506	15,897,506	17,626,193	1,728,687	
Charges for Services	226,076	226,076	222,837	(3,239)	
Intergovernmental	400,000	400,000	825,315	425,315	
Investment earnings	81,324	81,324	317,958	236,634	
Miscellaneous	149,000	149,000	442,464	293,464	
Total revenues	<u>53,454,810</u>	<u>53,454,810</u>	<u>56,336,555</u>	<u>2,881,745</u>	
EXPENDITURES					
Current					
Administration	3,659,917	6,800,383	6,180,837	619,546	
Healthcare assistance	9,508,820	7,623,815	5,902,760	1,721,055	
Emergency medical services	28,099,537	31,654,954	29,678,155	1,976,799	
Radio, facilities, and information technology	5,213,929	6,212,034	4,988,183	1,223,851	
Public health and emergency preparedness	664,049	678,448	617,678	60,770	
Debt service					
Principal retirement	1,029,688	1,029,688	1,029,688	-	
Interest and fiscal charges	74,640	74,641	74,639	2	
Capital outlay	<u>4,949,924</u>	<u>2,759,857</u>	<u>2,079,598</u>	<u>680,259</u>	
Total expenditures	<u>53,200,504</u>	<u>56,833,820</u>	<u>50,551,538</u>	<u>6,282,282</u>	
Excess of revenues over expenditures	254,306	(3,379,010)	5,785,017	9,164,027	
OTHER FINANCING SOURCES					
Proceeds from sale of assets	24,000	24,000	49,769	25,769	
Total other financing sources	<u>24,000</u>	<u>24,000</u>	<u>49,769</u>	<u>25,769</u>	
Net change in fund balance	278,306	(3,355,010)	5,834,786	9,189,796	
Fund balance - beginning	<u>40,186,276</u>	<u>40,186,276</u>	<u>40,186,276</u>	<u>-</u>	
FUND BALANCE - ENDING	\$ 40,464,582	\$ 36,831,266	\$ 46,021,062	\$ 9,189,796	

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

Montgomery County Hospital District

Exhibit F-1

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Year Ended September 30, 2017

	2017*	2016*	2015*
TOTAL PENSION LIABILITY			
Service cost	\$ 2,759,688	\$ 2,241,909	\$ 1,935,546
Interest	1,662,372	1,439,974	1,105,667
Effect of plan changes	-	(124,742)	473,611
Effect of economic/demographic (gains) or losses	(510,769)	(1,013,480)	827,063
Effect of assumptions changes or inputs	-	176,666	-
Refund of contributions	(260,640)	(103,230)	-
Benefit payments, including refunds of employee contributions	(26,925)	(18,562)	(193,020)
Net change in total pension liability	<u>3,623,726</u>	<u>2,598,535</u>	<u>4,148,867</u>
Total pension liability - beginning	<u>19,311,120</u>	<u>16,712,585</u>	<u>12,563,718</u>
TOTAL PENSION LIABILITY - ENDING (a)	<u><u>\$ 22,934,846</u></u>	<u><u>\$ 19,311,120</u></u>	<u><u>\$ 16,712,585</u></u>
PLAN FIDUCIARY NET POSITION			
Contributions - district	\$ 4,539,035	\$ 1,406,230	\$ 1,093,580
Contributions - employee	1,385,264	1,333,823	1,190,523
Net investment income	1,300,958	(197,756)	822,292
Benefit payments, including refunds of employee contributions	(287,565)	(121,792)	(193,020)
Administrative expense	(14,145)	(11,770)	(10,485)
Other	297,659	270	1,284
Net change in plan fiduciary net position	<u>7,221,206</u>	<u>2,409,005</u>	<u>2,904,174</u>
Plan fiduciary net position - beginning	<u>17,379,798</u>	<u>14,970,793</u>	<u>12,066,619</u>
PLAN FIDUCIARY NET POSITION - ENDING (b)	<u><u>\$ 24,601,004</u></u>	<u><u>\$ 17,379,798</u></u>	<u><u>\$ 14,970,793</u></u>
NET PENSION LIABILITY (ASSET) - ENDING (a) - (b)	<u><u>\$ (1,666,158)</u></u>	<u><u>\$ 1,931,322</u></u>	<u><u>\$ 1,741,792</u></u>
Plan fiduciary net position as a percentage of total pension liability	107.26%	90.00%	89.58%
Covered payroll	19,775,929	19,054,613	17,006,833
Net pension liability (asset) as a percentage of covered payroll	-8.43%	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, 2017

Exhibit F-2

	2017	2016	2015
Actuarially determined contribution	\$ 1,552,855	\$ 1,611,799	\$ 1,306,500
Contributions in relation to the actuarially determined contributions	<u>(4,385,991)</u>	<u>(1,611,799)</u>	<u>(1,306,500)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ (2,833,136)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 21,414,773	\$ 19,339,917	\$ 18,236,372
Contributions as a percentage of covered payroll	7.25%	8.33%	7.16%

Notes to Schedule of Contributions

GASB Statement No. 68 requires 10 years of data; however, three 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.

Montgomery County Hospital District

Notes to the Required Supplementary Information

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 \$690,852 and assigned a portion of fund balance for outstanding encumbrances of \$354,554 in the general fund.

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

- Healthcare assistance actual expenditures were less than budget due to fewer patients utilizing HCAP services than expected and some capital expenditures being postponed.
- EMS expenditures were under budget mainly because operating expenses ran less than expected and some capital expenditures being postponed.
- Radio, facilities, and information technology expenditures were less than budget due to 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	0.0 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset valuation method	5 year smoothed market
Inflation	3.00%
Salary increases	4.9% average, including inflation
Investment rate of return	8.00%, net of investment expenses
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 projected to 2014 with 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	RP-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

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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, 2017, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated March 27, 2018.

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.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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
March 27, 2018

Montgomery County Hospital District

Schedule of Findings and Responses

Year Ended September 30, 2017

Section 1. 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 | No |
| 3. Noncompliance material to the financial statements noted | No |

Section 2. Financial Statement Findings

Findings Related to Internal Control Over Financial Reporting

None reported

Findings Related to Compliance with Laws and Regulations

None reported

Montgomery County Hospital District
Summary Schedule of Prior Audit Findings
Year Ended September 30, 2017

Prior Year Findings

2016-001 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 appropriately corrected in the 2017 fiscal year by the District implementing a capital asset/depreciation software to properly record assets and depreciation. The District also performed an inventory of all capital assets to ensure items recorded are appropriate.

Montgomery County Hospital District

Corrective Action Plan

Year Ended September 30, 2017

Corrective Action Plan

None reported.