

# **Montgomery County Hospital District**

Annual Financial Report

Year Ended September 30, 2020

**Montgomery County Hospital District**  
 Annual Financial Report  
 For the Fiscal Year Ended September 30, 2020  
 Table of Contents

	Page	Exhibit
<b>Financial Section</b>		
Independent Auditor’s Report .....	3	
Management’s Discussion and Analysis.....	5	
<b>Basic Financial Statements</b>		
Government-wide Financial Statements		
Statement of Net Position .....	15	A-1
Statement of Activities .....	16	B-1
Fund Financial Statements		
Balance Sheet – Governmental Fund .....	18	C-1
Reconciliation of the Governmental Fund		
Balance Sheet to the Statement of Net Position .....	19	C-2
Statement of Revenues, Expenditures and		
Changes in Fund Balance – Governmental Fund .....	20	C-3
Reconciliation of the Statement of Revenues, Expenditures		
and Changes in Fund Balance of Governmental Fund to		
the Statement of Activities .....	21	C-4
Notes to the Financial Statements .....	23	
<b>Required Supplementary Information</b>		
Schedule of Revenues, Expenditures and Changes		
in Fund Balance – Budget to Actual – General Fund.....	47	D-1
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios .....	48	E-1
Schedule of District Contributions to Texas County		
and District Retirement System (TCDRS) .....	50	E-2
Notes to the Required Supplementary Information .....	53	
<b>Overall Compliance and Internal Control Section</b>		
Independent Auditor’s Report on Internal Control over Financial		
Reporting and on Compliance and Other Matters Based on an		
Audit of Financial Statements Performed in Accordance with		
<i>Government Auditing Standards</i> .....	57	
Schedule of Findings and Responses.....	59	
Summary Schedule of Prior Audit Findings.....	60	

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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, and the major fund of Montgomery County Hospital District (the District), as of and for the year ended September 30, 2020, 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, and the major fund of the District, as of September 30, 2020, 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 10, 2021 on our consideration of the 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 the District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 10, 2021

## 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, 2020. 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 and deferred inflows of resources at September 30, 2020 by \$85,939,375 (net position). As required by the Governmental Accounting Standards Board (GASB) Statement No. 34, net position also includes \$38,908,675 related to its net investment in capital assets. With the presentation of the investment in capital assets, unrestricted net position amounts to \$47,030,700 (unrestricted net position) which may be used to meet the District's ongoing obligations to citizens and creditors.
- The revenues for the District's government-wide activities were \$56,372,233 while expenses were \$58,348,912 resulting in the decrease in total net position of \$1,976,679 from operations.
- In contrast to the government-wide statements, the District's governmental fund reported an ending fund balance at September 30, 2020 of \$43,367,714, a decrease of \$2,920,404 from the prior year. Approximately 61% of the ending balance, \$26,365,292, is unassigned.
- At year-end, the unassigned General Fund balance was 43% 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, 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 are presented in its governmental 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.

**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 the net pension liability (assets) 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 \$85,939,375, at September 30, 2020, as shown in the table that follows.

### Montgomery County Hospital District's Net Position

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 51,176,617	57	\$ 51,361,619	57	\$ (185,002)	-
Non-current capital assets	39,104,454	43	38,858,093	43	246,361	1
<b>Total assets</b>	<b>90,281,071</b>	<b>100</b>	<b>90,219,712</b>	<b>100</b>	<b>61,359</b>	
Total deferred outflows of resources	2,270,427	100	4,093,142	100	(1,822,715)	(45)
Other liabilities	3,062,094	60	3,326,899	61	(264,805)	(8)
Long-term liabilities	2,076,625	40	2,139,616	39	(62,991)	(3)
<b>Total liabilities</b>	<b>5,138,719</b>	<b>100</b>	<b>5,466,515</b>	<b>100</b>	<b>(327,796)</b>	
Total deferred inflows of resources	1,473,404	100	930,285	100	543,119	58
Net position:						
Net investment in capital assets	38,908,675	45	38,274,732	44	633,943	2
Restricted	-	-	1,205	-	(1,205)	-
Unrestricted	47,030,700	55	49,640,117	56	(2,609,417)	(5)
<b>Total net position</b>	<b>\$ 85,939,375</b>	<b>100</b>	<b>\$ 87,916,054</b>	<b>100</b>	<b>\$ (1,976,679)</b>	

The District's total assets of \$90,281,071 are largely comprised of capital assets net of accumulated depreciation of \$39,104,454, or 43% of total assets. Capital assets are non-liquid assets and cannot be used to satisfy the District's obligations. Although the District's net 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 \$2,076,625 or 40% of total liabilities, largely decreased from prior fiscal year due to regular capital lease obligations paid and decreased health insurance claims during the year. 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, 2020, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$85,939,375. Approximately 45% of total net position or \$38,908,675 represents net investments in capital assets. The \$47,030,700 (55%) of unrestricted net position represents resources available to fund the programs of the District's next year.

The District's governmental activities decreased net position by \$1,976,679. Key components of this decrease are as follows:

**Montgomery County Hospital District's Changes in Net Position**

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services:						
Administration	\$ 227,405	-	\$ 222,893	-	\$ 4,512	2
Healthcare assistance	2,318	-	4,702	-	(2,384)	(51)
Emergency medical services	15,552,138	28	16,112,590	30	(560,452)	(3)
Radio, facilities, and information technology	325,358	1	266,373	-	58,985	22
Operating grants and contributions:						
Emergency medical services	2,890,978	5	2,103,584	4	787,394	37
General revenues:						
Property taxes	34,845,239	62	32,744,571	61	2,100,668	6
Grants and contributions not restricted to a specific program	739,420	1	752,605	1	(13,185)	(2)
Investment earnings	634,222	1	1,188,377	2	(554,155)	(47)
Miscellaneous	1,175,866	2	914,984	2	260,882	29
<b>Total revenues</b>	<b>56,372,233</b>	<b>100</b>	<b>54,310,679</b>	<b>100</b>	<b>2,061,554</b>	
Expenses						
Administration	7,871,156	13	7,283,275	13	587,881	8
Healthcare assistance	6,665,592	11	6,675,560	12	(9,968)	-
Emergency medical services	36,423,829	63	33,864,232	63	2,559,597	8
Radio, facilities, and information technology	7,369,406	13	5,844,911	11	1,524,495	26
Public health and emergency preparedness	11,640	-	677,662	1	(666,022)	(98)
Interest and fiscal charges	7,289	-	17,989	-	(10,700)	(59)
<b>Total expenses</b>	<b>58,348,912</b>	<b>100</b>	<b>54,363,629</b>	<b>100</b>	<b>3,985,283</b>	
Change in net position	(1,976,679)		(52,950)		(1,923,729)	
Net position - beginning	87,916,054		87,969,004		(52,950)	
<b>Net position - ending</b>	<b>\$ 85,939,375</b>		<b>\$ 87,916,054</b>		<b>\$ (1,976,679)</b>	

The District's total revenues of \$56,372,233 were all from governmental activities. Property tax revenue accounts for \$34,845,239, or 62%, and emergency medical services revenue accounts for \$18,443,116, or 33% of total government-wide revenues. Total revenues increased \$2,061,554 over the prior year. The increase in revenues resulted from an increase in property tax revenue.

Total expenses for the year ended September 30, 2020 totaled \$58,348,912. Administration accounted for \$7,871,156 or 13%, healthcare assistance accounted for \$6,665,592 or 11%, emergency medical services accounted for \$36,423,829, or 63%, and radio, facilities, and information technology accounted for \$7,369,406, or 13% of total government-wide expenses. Total expenses went up due to an increase in EMS staffing in response to COVID-19.

### **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 \$26,365,292 and total fund balance was \$43,367,714. 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 43% and 71% of total general fund expenditures, respectively. The fund balance of the District's general fund decreased by \$2,920,404 during the current fiscal year. For the most part, increases in emergency medical services and radio, facilities, and information technology expenditures were the primary reason for the decrease in fund balance.

### **General Fund Budgetary Highlights**

The District's budget is prepared on a modified accrual basis. There were no significant variances in the original budget to final amended budget or between the final amended budget and actual results of the General Fund. Instances in which actual expenditures exceeded budget are disclosed in the notes to the required supplementary information.

### **Capital Assets and Debt Administration**

#### **Capital Assets**

The District's investment in capital assets for its governmental activities as of September 30, 2020 amounts to \$39,104,454 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and site improvements, equipment, vehicles, and communication system.

Major capital asset activity during the year included the following:

- Construction in progress additions in the amount of \$1,444,630
- Vehicle purchases in the amount of \$2,680,349 offset with \$568,961 of disposals

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

	Governmental Activities					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 2,899,759	7	\$ 2,899,759	7	\$ -	-
Construction in progress	1,580,241	4	6,425,047	17	(4,844,806)	(75)
Buildings and site improvements	20,395,778	53	19,842,809	51	552,969	3
Equipment	2,867,070	7	2,918,895	8	(51,825)	(2)
Vehicles	4,854,613	12	3,093,001	8	1,761,612	57
Communication system	6,506,993	17	3,678,582	9	2,828,411	77
<b>Totals</b>	<b>\$ 39,104,454</b>	<b>100</b>	<b>\$ 38,858,093</b>	<b>100</b>	<b>\$ 246,361</b>	

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

**Long-term Liabilities**

At September 30, 2020, the District had total outstanding long-term liabilities in the amount of \$2,076,625, 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					
	2020		2019		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Capital leases	\$ 195,779	9	\$ 583,361	27	\$ (387,582)	(66)
Compensated absences	1,641,026	79	1,208,719	57	432,307	36
Healthcare claims	239,820	12	347,536	16	(107,716)	(31)
<b>Total</b>	<b>\$ 2,076,625</b>	<b>100</b>	<b>\$ 2,139,616</b>	<b>100</b>	<b>\$ (62,991)</b>	

The District's total long-term liabilities decreased by \$62,991 during the 2020 fiscal year, mostly due to a decrease in the District's capital lease obligations. Additional information on the District's long-term liabilities can be found in Note 8 of this report.

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

- District staff totals 379 employees, 243 of which are EMS responders.
- The unemployment rate for Montgomery County is currently 8.2%, which is an increase from the rate of 3.2% last year due to COVID-19 related events. This compares unfavorably to the State's average unemployment of 7.2%.
- The population of Montgomery County at September 30, 2020 is approximately 625,000.
- A maintenance and operations tax rate of \$.0588 was adopted for the 2020-2021 fiscal year.

The District's budgeted fund balance for the 2021 fiscal year is expected to decrease by approximately \$3,515,680.

**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, 2020

Exhibit A-1

	<u>Primary Governmental Governmental Activities</u>	<u>Component Unit MCPHD</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 17,178,896	\$ 2,235,696
Investments	21,667,242	-
Receivables, net	7,427,751	15,000
Intergovernmental receivables	-	145,160
Due from component unit	315,838	-
Inventories	896,066	-
Prepaid items	215,136	-
Net pension asset	3,475,688	-
Capital assets, net of accumulated depreciation		
Land and improvements	2,899,759	-
Construction in progress	1,580,241	-
Buildings and site improvements	20,395,778	-
Equipment	2,867,070	-
Vehicles	4,854,613	12,948
Communication system	6,506,993	-
	<u>39,104,454</u>	<u>12,948</u>
Total capital assets		
	90,281,071	2,408,804
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources for pensions	<u>2,270,427</u>	<u>-</u>
Total deferred outflows of resources	2,270,427	-
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	3,061,946	11,593
Unearned revenues	-	12,858
Accrued interest	148	-
Due to primary government	-	315,838
Noncurrent liabilities		
Due within one year		
Capital lease payable	167,054	-
Compensated absences	1,641,026	-
Healthcare claims	239,820	6,412
Due in more than one year		
Capital lease payable	<u>28,725</u>	<u>-</u>
	5,138,719	346,701
Total liabilities		
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources for pensions	<u>1,473,404</u>	<u>-</u>
Total deferred inflows of resources	1,473,404	-
<b>NET POSITION</b>		
Net investment in capital assets	38,908,675	12,948
Restricted - grants	-	12,858
Unrestricted	<u>47,030,700</u>	<u>2,036,297</u>
<b>TOTAL NET POSITION</b>	<u>\$ 85,939,375</u>	<u>\$ 2,062,103</u>

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

# Montgomery County Hospital District

## Statement of Activities

Year Ended September 30, 2020

FUNCTIONS/PROGRAMS	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>PRIMARY GOVERNMENT</b>			
Governmental activities			
Administration	\$ 7,871,156	\$ 227,405	\$ -
Healthcare assistance	6,665,592	2,318	-
Emergency medical services	36,423,829	15,552,138	2,890,978
Radio, facilities, and information technology	7,369,406	325,358	-
Public health and emergency preparedness	11,640	-	-
Interest and fiscal charges	7,289	-	-
	<u>58,348,912</u>	<u>16,107,219</u>	<u>2,890,978</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 58,348,912</u>	<u>\$ 16,107,219</u>	<u>\$ 2,890,978</u>
<b>COMPONENT UNIT</b>			
Montgomery County Public Health District	<u>\$ 3,017,603</u>	<u>\$ 16,436</u>	<u>\$ 3,364,022</u>

General revenues  
 Property taxes  
 Grants and contributions not restricted to a specific program  
 Investment earnings  
 Miscellaneous  
 Loss on asset disposal

Total general revenues

Change in net position

Net position - beginning

**NET POSITION - ENDING**

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

<u>Net (Expense) Revenue and Changes in Net Position</u>		<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Total</u>	<u>MCPHD</u>
\$ (7,643,751)	\$ (7,643,751)	
(6,663,274)	(6,663,274)	
(17,980,713)	(17,980,713)	
(7,044,048)	(7,044,048)	
(11,640)	(11,640)	
(7,289)	(7,289)	
<u>(39,350,715)</u>	<u>(39,350,715)</u>	
(39,350,715)	(39,350,715)	
		\$ 362,855
34,845,239	34,845,239	-
739,420	739,420	-
634,222	634,222	-
1,175,866	1,175,866	90,993
(20,711)	(20,711)	-
<u>37,374,036</u>	<u>37,374,036</u>	<u>90,993</u>
(1,976,679)	(1,976,679)	453,848
<u>87,916,054</u>	<u>87,916,054</u>	<u>1,608,255</u>
<u>\$ 85,939,375</u>	<u>\$ 85,939,375</u>	<u>\$ 2,062,103</u>

Montgomery County Hospital District  
 Balance Sheet - Governmental Fund  
 September 30, 2020

Exhibit C-1

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 17,178,896
Investments	21,667,242
Receivables	
Taxes receivable, net	900,186
EMS receivable, net	4,166,386
Other receivables	2,361,179
Due from component unit	315,838
Inventories	896,066
Prepaid items	215,136
	<hr/>
<b>TOTAL ASSETS</b>	<b>\$ 47,700,929</b>
	<hr/> <hr/>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 3,061,946
	<hr/>
Total liabilities	3,061,946
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	900,185
Unavailable revenue - long-term receivable	371,084
	<hr/>
Total deferred inflows of resources	1,271,269
<b>FUND BALANCE</b>	
Nonspendable - inventories	896,066
Nonspendable - prepaid items	215,136
Committed - capital replacement	1,900,000
Committed - capital maintenance	100,000
Committed - open purchase orders	1,007,279
Committed - uncompensated care	7,500,000
Committed - catastrophic events	5,000,000
Assigned - open purchase orders	383,941
Unassigned	26,365,292
	<hr/>
Total fund balance	43,367,714
	<hr/>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>	<b>\$ 47,700,929</b>
	<hr/> <hr/>

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

**Montgomery County Hospital District**  
 Reconciliation of the Governmental Fund Balance Sheet  
 to the Statement of Net Position  
 September 30, 2020

**Exhibit C-2**

**TOTAL FUND BALANCE - GOVERNMENTAL FUND BALANCE SHEET** \$ 43,367,714

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 fund. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 66,220,019	
Accumulated depreciation of governmental capital assets	(27,115,565)	39,104,454

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 fund.	3,475,688
---	-----------

Property taxes receivable and long-term receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures; therefore, these are deferred in the fund.	1,271,269
---	-----------

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

Capital leases	\$ (195,779)	
Accrued interest on capital leases	(148)	
Compensated absences	(1,641,026)	
Healthcare claims	(239,820)	(2,076,773)

Deferred inflows for pension are included in the statement of net position and are not reported in the fund due to they are not current financial liabilities.	(1,473,404)
--	-------------

Deferred outflows for pension are included in the statement of net position and are not reported in the fund due to they are not a current financial resource available to pay for current expenditures.	2,270,427
--	-----------

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 85,939,375**

**Montgomery County Hospital District**  
Statement of Revenues, Expenditures and Changes  
in Fund Balance – Governmental Fund  
Year Ended September 30, 2020

**Exhibit C-3**

	<u>General Fund</u>
<b>REVENUES</b>	
Property taxes	\$ 34,546,437
Program revenues	20,426,290
Charges for services	227,405
Intergovernmental	739,420
Investment earnings	634,222
Miscellaneous	1,132,116
	<hr/>
Total revenues	57,705,890
<b>EXPENDITURES</b>	
Current	
Administration	9,202,159
Healthcare assistance	6,661,818
Emergency medical services	34,023,041
Radio, facilities, and information technology	5,420,634
Debt service	
Principal retirement	426,068
Interest and fiscal charges	7,800
Capital outlay	4,967,180
	<hr/>
Total expenditures	60,708,700
Excess of expenditures over revenues	(3,002,810)
<b>OTHER FINANCING SOURCES</b>	
Capital lease	38,486
Proceeds from sale of capital assets	43,920
	<hr/>
Total other financing sources	82,406
Net change in fund balance	(2,920,404)
Fund balance - beginning	46,288,118
	<hr/>
<b>FUND BALANCE - ENDING</b>	<b>\$ 43,367,714</b>
	<hr/>

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, 2020

<b>TOTAL NET CHANGES IN FUND BALANCE - GOVERNMENTAL FUND</b>	\$	(2,920,404)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
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.		238,719
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	\$ 4,967,180	
Depreciation expense	<u>(4,699,938)</u>	267,242
The net effect of miscellaneous transactions involving capital assets (transfers, adjustments and dispositions) is a increase (decrease) to net position.		(20,881)
Issuance of a capital lease provides current financial resources to governmental funds, but issuing a capital lease increases long-term liabilities in the statement of net position.		(38,486)
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.		426,068
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the fund 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		511
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 fund.		(432,307)
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 fund.		107,716
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 not reported in the governmental fund. The net change consists of the following:		
Deferred inflows (increased) decreased	\$ (543,119)	
Deferred outflows increased (decreased)	(1,822,715)	
Net pension asset increased (decreased)	<u>2,760,977</u>	<u>395,143</u>
<b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$</b>	<b><u>(1,976,679)</u></b>

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. 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 Texas Health and Safety Code:

- 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;
- Research new insights and innovative solutions to community health problems;
- Evaluate the effectiveness, accessibility, and quality of personal and population-based services in a community.

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

# Montgomery County Hospital District

## Notes to the Financial Statements

### **B. Basis of Presentation – Government-wide Financial Statements**

The government-wide financial statements report information on all of the nonfiduciary activities of the District and its component unit. Governmental activities 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.

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.

### **C. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the District's funds. 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.

### **D. 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.

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, excluding property taxes, to be available if they are collected within 120 days of the end of the current fiscal period. Property taxes are recognized as revenues 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.

# Montgomery County Hospital District

## Notes to the Financial Statements

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues for amounts collected within the availability period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the availability period for this revenue source (within 120 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 within the availability period for this revenue source (within 120 days of year-end). All other revenue items are considered to be measurable and available only when cash is received.

### **E. 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. 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 carrying value of the non-negotiable certificates of deposits is reported at cost. The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code.

#### **3. Inventories and Prepaid Items**

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

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

#### **4. Capital Assets**

Capital assets, which include land and improvements, construction in progress, buildings and improvements, equipment, vehicles, and communication system assets (e.g. radio towers, structures, equipment, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

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

# Montgomery County Hospital District

## Notes to the Financial Statements

Land and improvements and construction in progress are not depreciated. The buildings and site 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 site 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 inflow 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 governmental fund 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 this 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 asset results from differences in expected and actual experience and also includes change in assumptions and projected versus actual earnings in the current fiscal year.

### 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 TCERS's Fiduciary Net Position have been determined on the same basis as they are reported by TCERS. 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.

# Montgomery County Hospital District

## Notes to the Financial Statements

### **7. Net Position Policies**

Net position of governmental activities and MCPHD is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District classifies net position as follows:

*Net investment in capital assets* – the component of net position that reports capital assets, net of accumulated depreciation, and net of related debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

*Restricted* – the component of net position that is constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes federal and state grants.

*Unrestricted* – the component of net position that includes the residual difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources that is not classified in the categories mentioned above.

### **8. 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.

### **9. Fund Balance Policies**

Fund balance of governmental funds is reported in various classifications based on the nature of any limitations requiring the use of resources for specific purposes. The District classifies governmental fund balance as follows:

*Nonspendable* – Amounts that cannot be spent either because the underlying resources are not in spendable form or because they are legally or contractually required to be maintained intact, e.g., inventory and prepaid items.

*Restricted* – Amounts that represent resources subject to externally enforceable constraints, e.g., grants and creditors.

*Committed* – Amounts that can only be used for specific purposes as imposed by the Board of Directors by formal action and can only be removed by the Board of Directors through similar action. These amounts may be used at Board discretion for unanticipated, non-recurring needs, one-time opportunities, or anticipated future obligations. Committed Fund Balances may also include open purchase orders approved by the Board of Directors.

*Assigned* – Amounts that represent resources set aside by the District for a particular purpose, such as open purchase orders approved by management. The Board of Directors has by resolution authorized the Chief Executive Officer (CEO) or his designee to assign funds. 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

Unassigned – The difference between total fund balance and the nonspendable, restricted, committed, and assigned components. The unassigned fund balance should be at least three months of regular, on-going operating expenditures.

### **10. 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.

## **F. 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, 2020 was \$0.0589 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. Any accrued PTO in excess of the carryover amount will be paid to the employee based on the policies in place at the District.

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 expenses/expenditures during the reporting period. Actual results could differ from those estimates.

# Montgomery County Hospital District

## Notes to the Financial Statements

### 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).

#### 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, 2020, the carrying amount of the District's deposits (cash, interest-bearing savings accounts, and money market accounts) was \$17,178,896 and the bank's balances totaled to \$17,767,388. At September 30, 2020, 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 (the 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.

Certain investment types are not required to be measured at fair value; these include money market funds, certain investment pools and non-negotiable 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.



# Montgomery County Hospital District

## Notes to the Financial Statements

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

Investment Type	Primary Government	Weighted Average Maturity (Days)
Investments measured at cost		
Certificates of deposit - non-negotiable	\$ 19,247,914	145
Investments measured at amortized cost		
External investment pools		
TexPool	1,215,165	38
TexSTAR	1,204,163	39
<b>Total Value</b>	<b>\$ 21,667,242</b>	
Portfolio weighted average maturity		133

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.

TexSTAR is an external investment pool that measures for financial reporting purposes all of its investments at amortized cost. TexSTAR 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 five years, and the dollar-weighted average maturities of any pooled fund shall be no longer than 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 2020, 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 Hilltop Securities, Inc. and J.P. Morgan Investment Management, Inc. TexPool and TexStar are rated AAAM by Standard and Poor at September 30, 2020. Negotiable and non-negotiable certificates of deposit are fully insured and collateralized by their respective financial institutions.

# 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, 2020, 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.

### TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

### TexSTAR

The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provides custodial, transfer agency, fund accounting, and depository services.

### Discretely Presented Component Unit

As of September 30, 2020, the MCPHD bank balance was \$2,235,496 and was insured and collateralized by the bank's agent in the District's name.

## Note 4. Receivables

Amounts recorded as receivable in the General Fund, as of September 30, 2020, are as follows:

	Receivables	Less Allowance for Uncollectibles	Net Receivables
Receivables:			
Taxes	\$ 1,184,084	\$ (283,898)	\$ 900,186
Emergency medical service fees	7,474,630	(3,308,244)	4,166,386
Other	2,361,179	-	2,361,179
<b>Totals</b>	<b>\$ 11,019,893</b>	<b>\$ (3,592,142)</b>	<b>\$ 7,427,751</b>

# Montgomery County Hospital District

## Notes to the Financial Statements

### 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 \$0.0589 per \$100 valuation. Taxes for fiscal year 2020 were levied on property within the District having an assessed valuation of approximately \$59 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 \$8,333 per month.

The District and MCPHD have an interlocal agreement to provide community paramedicine services. The District will provide the services and MCPHD will reimburse the District up to \$300 for each patient encounter. For the year ended September 30, 2020, the District recognized as revenue and MCPHD recognized as expense at total \$1,608,400 for services rendered.

The District and MCPHD have also entered into a lease agreement whereby MCPHD leases office space from the District for approximately \$93,000 per year.

Amounts receivable and payable between the District and its component unit at September 30, 2020 were as follows:

<u>Primary Government/Component Unit</u>	<u>Receivables</u>	<u>Payables</u>
District - General Fund	\$ 315,838	\$ -
Component unit - MCPHD	-	315,838
<b>Totals</b>	<b>\$ 315,838</b>	<b>\$ 315,838</b>

**Montgomery County Hospital District**  
Notes to the Financial Statements

**Note 7. Capital Assets**

Government capital assets activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land and improvements	\$ 2,899,759	\$ -	\$ -	\$ -	\$ 2,899,759
Construction in progress	6,425,047	1,444,630	(6,289,436)	-	1,580,241
<b>Total capital assets, not being depreciated</b>	<b>9,324,806</b>	<b>1,444,630</b>	<b>(6,289,436)</b>	<b>-</b>	<b>4,480,000</b>
Capital assets, being depreciated:					
Buildings and site improvements	26,722,446	14,198	1,464,688	-	28,201,332
Equipment	12,195,361	350,044	964,260	(82,868)	13,426,797
Vehicles	7,571,611	2,680,347	660,466	(568,961)	10,343,463
Communication system	6,120,073	477,961	3,200,022	(29,629)	9,768,427
<b>Total capital assets being depreciated</b>	<b>52,609,491</b>	<b>3,522,550</b>	<b>6,289,436</b>	<b>(681,458)</b>	<b>61,740,019</b>
Less accumulated depreciation for:					
Buildings and site improvements	(6,879,637)	(925,917)	-	-	(7,805,554)
Equipment	(9,276,466)	(1,365,583)	-	82,322	(10,559,727)
Vehicles	(4,478,610)	(1,579,211)	-	568,971	(5,488,850)
Communication system	(2,441,491)	(829,227)	-	9,284	(3,261,434)
<b>Total accumulated depreciation</b>	<b>(23,076,204)</b>	<b>(4,699,938)</b>	<b>-</b>	<b>660,577</b>	<b>(27,115,565)</b>
<b>Total capital assets, being depreciated, net</b>	<b>29,533,287</b>	<b>(1,177,388)</b>	<b>6,289,436</b>	<b>(20,881)</b>	<b>34,624,454</b>
<b>Government activities capital assets, net</b>	<b>\$ 38,858,093</b>	<b>\$ 267,242</b>	<b>\$ -</b>	<b>\$ (20,881)</b>	<b>\$ 39,104,454</b>

Depreciation expense was charged to functions/programs for the fiscal year 2020 as follows:

Governmental activities:	
Administration	\$ 287,594
Healthcare assistance	1,819
Emergency medical services	2,029,895
Radio, facilities, and information technology	2,380,630
<b>Total</b>	<b>\$ 4,699,938</b>

# Montgomery County Hospital District

## Notes to the Financial Statements

Montgomery County Public Health District's capital asset activity for the year ended September 30, 2020 was as follows:

	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
MCPHD activities:					
Capital assets, being depreciated:					
Vehicles	\$ 24,278	\$ -	\$ -	\$ -	\$ 24,278
Total capital assets being depreciated	24,278	-	-	-	24,278
Less accumulated depreciation for:					
Vehicles	(6,474)	(4,856)	-	-	(11,330)
Total accumulated depreciation	(6,474)	(4,856)	-	-	(11,330)
<b>MCPHD activities capital assets, net</b>	<b>\$ 17,804</b>	<b>\$ (4,856)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,948</b>

Depreciation expense was charged \$4,856 for the fiscal year 2020 to the Public Health Department.

### Note 8. Long-term Liabilities

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

Changes in long-term liabilities for the period ended September 30, 2020 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Capital leases	\$ 583,361	\$ 38,486	\$ (426,068)	\$ 195,779	\$ 167,054
Compensated absences	1,208,719	1,991,527	(1,559,220)	1,641,026	1,641,026
Healthcare claims	347,536	3,858,858	(3,966,574)	239,820	239,820
<b>Governmental activities long-term liabilities</b>	<b>\$ 2,139,616</b>	<b>\$ 5,888,871</b>	<b>\$ (5,951,862)</b>	<b>\$ 2,076,625</b>	<b>\$ 2,047,900</b>
Component unit activities:					
Healthcare claims	\$ 9,506	\$ 102,965	\$ (106,059)	\$ 6,412	\$ 6,412
<b>Component unit activities long-term liabilities</b>	<b>\$ 9,506</b>	<b>\$ 102,965</b>	<b>\$ (106,059)</b>	<b>\$ 6,412</b>	<b>\$ 6,412</b>

For governmental activities, capital leases payable, compensated absences and healthcare claims are liquidated by the General Fund.

# Montgomery County Hospital District

## Notes to the Financial Statements

### B. Capital Leases

The District entered into lease agreements for financing the acquisition of vehicles, 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
EMS Station 40	\$ 203,180	\$ -	\$ (203,180)	\$ -
EMS Station 43	380,181	-	(222,702)	157,479
Vehicle Lease	-	38,486	(186)	38,300
<b>Totals</b>	<b>\$ 583,361</b>	<b>\$ 38,486</b>	<b>\$ (426,068)</b>	<b>\$ 195,779</b>

The future debt service requirements for capital leases as of September 30, 2020 are noted below:

Year Ended September 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 167,054	\$ 1,495	\$ 168,549
2022	9,575	-	9,575
2023	9,575	-	9,575
2024	9,575	-	9,575
<b>Totals</b>	<b>\$ 195,779</b>	<b>\$ 1,495</b>	<b>\$ 197,274</b>

Amortization of leased equipment is included with depreciation expense.

Leased buildings and equipment and vehicles under capital leases in capital assets at September 30, 2020, include the following:

Building and site improvements	\$ 2,510,546
Vehicles	38,486
Less: Accumulated depreciation	<u>(394,935)</u>
<b>Total</b>	<b><u>\$ 2,154,097</u></b>

### Note 9. 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 nearly 800 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](http://www.tcdrs.org).

# Montgomery County Hospital District

## Notes to the Financial Statements

### 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.

### C. Employees Covered by Benefit Terms

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	17
Inactive employees entitled to but not yet receiving benefits	225
Active employees	<u>359</u>
<b>Total</b>	<u><u>601</u></u>

### D. Contributions

The District has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of the employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. The District contributed using the actuarially determined rate of 6.44 percent or \$1,878,689 for the calendar year 2019. The District contributed \$1,848,678 in actuarially required and supplemental contributions for the fiscal year ended September 30, 2020.

The deposit rate payable by the employee member for calendar year 2019 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.

# Montgomery County Hospital District

## Notes to the Financial Statements

### E. Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Payroll growth	2.00%
Real rate of return	5.25%
Long-term investment return	8.00%

The actuarial assumptions that determined the total pension liability as of December 31, 2019, were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016, except where required to be different by GASB 68. In addition, mortality rates were based on the following mortality tables:

Depositing Members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Service retirees, beneficiaries and Non-depositing Members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.



## 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 April 2020 information for a 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 for the period January 1, 2013 – December 31, 2016. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equities	14.50 %	5.20%
Private equity	20.00	8.20%
Global equities	2.50	5.50%
International equities - developed markets	7.00	5.20%
International equities - emerging markets	7.00	5.70%
Investment - grade bonds	3.00	-0.20%
Strategic credit	12.00	3.14%
Direct lending	11.00	7.16%
Distressed debt	4.00	6.90%
REIT equities	3.00	4.50%
Master limited partnerships	2.00	8.40%
Private real estate partnerships	6.00	5.50%
Hedge funds	8.00	2.30%
<b>Total</b>	<b>100.00 %</b>	

#### 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	Plan Fiduciary Net Position	Net Pension Liability/(asset)
	(a)	(b)	(a) - (b)
Balance at December 31, 2018	\$ 32,526,573	\$ 33,241,284	\$ (714,711)
Changes for the year			
Service cost	3,186,897	-	3,186,897
Interest on total pension liability	2,878,563	-	2,878,563
Difference between expected and actual experience	448,789	-	448,789
Refunds of contributions	(226,101)	(226,101)	-
Benefit payments	(132,193)	(132,193)	-
Administrative expense	-	(32,126)	32,126
Member contributions	-	1,851,878	(1,851,878)
Net investment income	-	5,455,456	(5,455,456)
Employer contributions	-	1,878,689	(1,878,689)
Other changes	-	121,330	(121,330)
Net changes	<u>6,155,955</u>	<u>8,916,933</u>	<u>(2,760,978)</u>
Balance at December 31, 2019	<u>\$ 38,682,528</u>	<u>\$ 42,158,217</u>	<u>\$ (3,475,688)</u>

### Sensitivity Analysis

The following presents the net pension liability (asset) of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability (asset) 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)	\$ 4,858,365	\$ (3,475,688)	\$ (10,068,856)

# Montgomery County Hospital District

## Notes to the Financial Statements

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

For the fiscal year ended September 30, 2020, the District recognized pension expense of \$1,463,450.

At September 30, 2020, 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	\$ 831,020	\$ 671,700
Change in assumptions	66,248	51,675
Net difference between projected and actual earnings on pension plan investments	-	750,029
Contributions made subsequent to the measurement date	1,373,159	-
<b>Totals</b>	<b>\$ 2,270,427</b>	<b>\$ 1,473,404</b>

The \$1,373,159 reported as deferred outflows of resources related to pensions from District contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the fiscal year ending September 30, 2021. 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,	
2021	\$ (136,057)
2022	(204,439)
2023	102,650
2024	(516,687)
2025	72,248
Thereafter	106,149
<b>Total</b>	<b>\$ (576,136)</b>

### Note 10. 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.

# Montgomery County Hospital District

## Notes to the Financial Statements

### Health Insurance

During 2020, 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 \$4,074,653 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, 2020 and 2019, 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:

	2020	2019
Healthcare claims, beginning of year	\$ 357,042	\$ 101,720
Incurred claims	3,961,823	3,831,766
Claim payments	(4,072,633)	(3,576,444)
<b>Healthcare claims, end of year</b>	<b>\$ 246,232</b>	<b>\$ 357,042</b>

### 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 11. 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.

# Montgomery County Hospital District

## Notes to the Financial Statements

### Note 12. Operating Lease

The District, as the lessor, entered into long-term lease agreements of radio communication towers and equipment for periods ranging from 6 to 25 years. The District's cost for this equipment and related depreciation are shown below:

Radio tower communications equipment	\$	5,367,314
Less: Accumulated depreciation		<u>(1,799,236)</u>
<b>Total</b>	<b>\$</b>	<b><u>3,568,078</u></b>

The District reports these leases as operating leases based on the terms of the agreements. Accordingly, the assets noted above are recorded in the District's capital assets. Revenue of \$334,128 was recognized in the current year related to the lease of the radio communication towers and equipment plus \$60,000 for management fees and costs.

Minimum future lease payments as of September 30, 2020 are as follows:

Year Ended	Governmental
September 30,	Activities
	Principal
2021	\$ 335,661
2022	337,209
2023	338,774
2024	340,353
2025	285,574
Thereafter	<u>2,242,888</u>
<b>Totals</b>	<b>\$ <u>3,880,459</u></b>

### Note 13. Recent Accounting Pronouncements

*GASB Statement No. 84, Fiduciary Activities (GASB 84)*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on 1) whether a government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2018; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 84 to reporting periods beginning after December 15, 2019, with earlier application encouraged. GASB 84 will be implemented in the District's fiscal year 2021 financial statements and the impact has not yet been determined.

## Montgomery County Hospital District

### Notes to the Financial Statements

*GASB Statement No. 87, Leases (GASB 87)*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2019; however, issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95)*, extended the effective date of GASB 87 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 87 will be implemented in the District's fiscal year 2022 financial statements and the impact has not yet been determined.

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## Required Supplementary Information



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**Montgomery County Hospital District**  
 Schedule of Revenues, Expenditures and Changes  
 in Fund Balance – Budget to Actual – General Fund  
 Year Ended September 30, 2020

**Exhibit D-1**

	Budgeted Amounts		Actual	Variance
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 34,623,604	\$ 34,623,604	\$ 34,546,437	\$ (77,167)
Program revenues	20,363,109	20,451,109	20,426,290	(24,819)
Charges for Services	226,064	226,064	227,405	1,341
Intergovernmental	600,000	600,000	739,420	139,420
Investment earnings	1,040,509	952,509	634,222	(318,287)
Miscellaneous	205,210	541,288	1,132,116	590,828
Total revenues	57,058,496	57,394,574	57,705,890	311,316
<b>EXPENDITURES</b>				
Current				
Administration	8,937,880	9,212,363	9,202,159	10,204
Healthcare assistance	6,120,199	6,120,392	6,661,818	(541,426)
Emergency medical services	35,276,508	34,478,615	34,023,041	455,574
Radio, facilities, and information technology	5,958,719	6,020,168	5,420,634	599,534
Debt service				
Principal retirement	390,979	390,984	426,068	(35,084)
Interest and fiscal charges	7,785	7,780	7,800	(20)
Capital outlay	5,096,115	5,441,429	4,967,180	474,249
Total expenditures	61,788,185	61,671,731	60,708,700	963,031
Excess of expenditures over revenues	(4,729,689)	(4,277,157)	(3,002,810)	1,274,347
<b>OTHER FINANCING SOURCES</b>				
Capital lease	-	-	38,486	38,486
Proceeds from sale of capital assets	30,000	30,000	43,920	13,920
Total other financing sources	30,000	30,000	82,406	52,406
Net change in fund balance	(4,699,689)	(4,247,157)	(2,920,404)	1,326,753
Fund balance - beginning	46,288,118	46,288,118	46,288,118	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 41,588,429</b>	<b>\$ 42,040,961</b>	<b>\$ 43,367,714</b>	<b>\$ 1,326,753</b>

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

# Montgomery County Hospital District

## Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Year Ended September 30, 2020\*

	<u>2020</u>	<u>2019</u>
<b>TOTAL PENSION LIABILITY</b>		
Service cost	\$ 3,186,897	\$ 2,985,032
Interest	2,878,563	2,458,698
Effect of plan changes	-	-
Effect of economic/demographic (gains) or losses	448,789	(48,347)
Effect of assumptions changes or inputs	-	-
Refund of contributions	(226,101)	(398,177)
Benefit payments, including refunds of employee contributions	(132,193)	(68,884)
	<u>6,155,955</u>	<u>4,928,322</u>
Net change in total pension liability		
Total pension liability - beginning	<u>32,526,573</u>	<u>27,598,251</u>
<b>TOTAL PENSION LIABILITY - ENDING (a)</b>	<u>\$ 38,682,528</u>	<u>\$ 32,526,573</u>
<b>PLAN FIDUCIARY NET POSITION</b>		
Contributions - district	\$ 1,878,689	\$ 1,631,063
Contributions - employee	1,851,878	1,679,036
Net investment income (loss)	5,455,456	(543,548)
Benefit payments, including refunds of employee contributions	(132,193)	(68,884)
Refund of contributions	(226,101)	(398,177)
Administrative expense	(32,126)	(26,700)
Other	121,330	87,804
	<u>8,916,933</u>	<u>2,360,594</u>
Net change in plan fiduciary net position		
Plan fiduciary net position - beginning	<u>33,241,284</u>	<u>30,880,690</u>
<b>PLAN FIDUCIARY NET POSITION - ENDING (b)</b>	<u>\$ 42,158,217</u>	<u>\$ 33,241,284</u>
<b>NET PENSION LIABILITY (ASSET) - ENDING (a) - (b)</b>	<u>\$ (3,475,688)</u>	<u>\$ (714,711)</u>
Plan fiduciary net position as a percentage of total pension liability	108.99%	102.20%
Covered payroll	26,455,402	23,986,225
Net pension liability (asset) as a percentage of covered payroll	-13.14%	-2.98%

\*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.

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

Exhibit E-1

2018	2017	2016	2015
\$ 2,789,010	\$ 2,759,688	\$ 2,241,909	\$ 1,935,546
2,068,859	1,662,372	1,439,974	1,105,667
-	-	(124,742)	473,611
260,230	(510,769)	(1,013,480)	827,063
(82,680)	-	176,666	-
(333,377)	(260,640)	(103,230)	-
(38,637)	(26,925)	(18,562)	(193,020)
4,663,405	3,623,726	2,598,535	4,148,867
22,934,846	19,311,120	16,712,585	12,563,718
<u>\$ 27,598,251</u>	<u>\$ 22,934,846</u>	<u>\$ 19,311,120</u>	<u>\$ 16,712,585</u>
\$ 1,479,097	\$ 4,539,035	\$ 1,406,230	\$ 1,093,580
1,524,842	1,385,264	1,333,823	1,190,523
3,633,221	1,300,958	(197,756)	822,292
(372,014)	(287,565)	(121,792)	(193,020)
-	-	-	-
(20,537)	(14,145)	(11,770)	(10,485)
35,077	297,659	270	1,284
6,279,686	7,221,206	2,409,005	2,904,174
24,601,004	17,379,798	14,970,793	12,066,619
<u>\$ 30,880,690</u>	<u>\$ 24,601,004</u>	<u>\$ 17,379,798</u>	<u>\$ 14,970,793</u>
<u>\$ (3,282,439)</u>	<u>\$ (1,666,158)</u>	<u>\$ 1,931,322</u>	<u>\$ 1,741,792</u>
111.89%	107.26%	90.00%	89.58%
21,783,458	19,775,929	19,054,613	17,006,833
-15.07%	-8.43%	10.14%	10.24%

**Montgomery County Hospital District**  
 Schedule of District Contributions to Texas County  
 and District Retirement System (TCDRS)  
 Year Ended September 30, 2020\*

	<u>2020</u>	<u>2019</u>
Actuarially determined contribution	\$ 1,848,678	\$ 1,680,793
Contributions in relation to the actuarially determined contributions	<u>(1,848,678)</u>	<u>(1,855,754)</u>
<b>CONTRIBUTION DEFICIENCY (EXCESS)</b>	<u>\$ -</u>	<u>\$ (174,961)</u>
Covered payroll	\$ 28,384,921	\$ 25,719,067
Contributions as a percentage of covered payroll	6.51%	6.54%

\*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 District's fiscal year end, September 30.

Exhibit E-2

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 1,558,054	\$ 1,552,855	\$ 1,611,799	\$ 1,306,500
<u>(1,558,054)</u>	<u>(4,385,991)</u>	<u>(1,611,799)</u>	<u>(1,306,500)</u>
<u>\$ -</u>	<u>\$ (2,833,136)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 22,920,977	\$ 21,414,773	\$ 19,339,917	\$ 18,236,372
6.80%	7.25%	8.33%	7.16%

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**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).

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 \$1,007,279 and assigned a portion of fund balance for outstanding encumbrances of \$383,941 in the general fund.

There were no significant variances in the general fund between final budget and actual.

Actual expenditures exceeded the final budget as follows:

	Final Budget	Actual Expenditures	Excess
General Fund:			
Healthcare assistance	\$ 6,120,392	\$ 6,661,818	\$ (541,426)
Debt service			
Principal retirement	390,984	426,068	(35,084)
Interest and fiscal charges	7,780	7,800	(20)



**Montgomery County Hospital District**  
Notes to the Required Supplementary Information

**B. Pensions**

**Valuation Date**

Actuarially determined contribution rates are calculated on a calendar year basis 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 rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	14.3 years (based on the contribution rate calculated in 12/31/2019 valuation)
Asset valuation method	5 year smoothed market
Inflation	2.75%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.00%, net of administrative and investment expenses, including inflation.
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: Employer contributions reflected that the current services matching rate was increased to 175% for future benefits. 2016: Employer contributions reflected that the current services matching rate was increased to 200%. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule. 2019: No changes in plan provisions were reflected in the Schedule.

## **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, and the major fund of Montgomery County Hospital District (the District) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 10, 2021.

***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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas  
March 10, 2021

# Montgomery County Hospital District

Schedule of Findings and Responses

Year Ended September 30, 2020

## Section 1. Summary of Auditors' Results

### Financial Statements

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued  | Unmodified    |
| 2. Internal control over financial reporting:   |               |
| <i>a.</i> Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| <i>b.</i> 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, 2020

**Prior Year Findings**

None reported.